



Lufax Holding(LU US) -initiate with BUY

June 17, 2021

INVESTMENT SUMMARY

- Because of the support from Ping An Group (PAG), Lufax is able to strengthen its leading position in providing loan services to small and medium-size enterprise owners, which traditional financial institutions and online peers fail to do.
- Lufax is about to recover from the impact brought by the ceasing of P2P wealth management product offerings, and its next key catalysts are mutual fund products and investment advisory businesses.
- Thanks to its comprehensive license, Lufax is going to be a major beneficiary of the recent regulatory campaign, if it could get more access to data from Ant/WeChat.

Research Team



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Lufax Holding Ltd (LU US)

A leading platform for unique services

- Ping An Group's strong offline presence, sales team, and Lufax's data/technology advantages ensure that Lufax has more advantages in offering unsecured loans to small and medium-size enterprise owners.
- Lufax has successfully retained most of its asset management clients after product restructuring, and we believe it will also benefit from higher penetration of the online wealth management market.
- We estimate that Lufax's total income/non-IFRS NI will reach RMB 63.1bn/16.9bn in 2021, representing 21%/24% YoY growth. Initiate with BUY and TP US\$ 17.5. Our TP implies 15X PE/2.3X PB in 2022.

Credit facilitation provides unique value

The majority of Lufax borrowers are small and medium-size enterprise owners. It provides unique value to these owners by offering fast/high ticket-sized/unsecured loans, which both traditional financial institutions and online peers failed to do. Most merchant banks featured a long application process and requirement for collateral for small and medium enterprise owners.

Wealth management back on track

The negative impact of P2P products has ended, and there is much potential for the Lufax wealth management business: 1) Lufax has successfully retained investors despite not offering P2P products. Its AUM barely changed. (RMB 369bn in 2018 and RMB 375 bn in 2020). 2) Lufax still has a wide reputation among middle-class investors. Contribution to AUM from investors with investments of more than RMB 300k increased from 73% in 2018 to 76% in 2020. 3) Lufax will be able to trade mutual funds on behalf of clients after it acquires an investment advisor license.

Regulatory guidance may lead to sector consolidation

In September 2020, China Supreme Court has guided the upper limit for private lending to be 4X Loan Prime Rate (LPR), which has a positive impact for Lufax: 1) As a financial institution with a consumer finance license, Lufax's business may not be defined as "private lending" and 4X LPR may not be applied. 2) Small loan companies typically feature a higher operating cost level than big players like Lufax. Most companies set APR as high as 24-36%.

Summary financial data

Highlights	2019A	2020A	2021E	2022E	2023E
Total income (RMB mn)	47,835	52,046	63,117	70,521	78,628
Operating profit (RMB mn)	22,627	23,434	33,504	37,592	42,322
Non-IFRS net income (RMB mn)	13,318	13,604	16,915	19,219	21,112
Non-IFRS EPADS (RMB mn)	6.1	5.6	6.7	7.3	7.8
P/E	15.3	14.9	12.0	10.6	9.6
P/B	4.2	2.4	2.0	1.7	1.4

Source: Bloomberg, Blue Lotus (as of Jun. 17,2021)

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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

BUY

HOLD

SELL

Target Price: US\$ 17.5

Current Price: US\$ 12.7

RIC: (NYSE: LU)

BBG: LU US

Market cap (US\$ mn)

31,222

Average daily volume (US\$ mn)

599

Shares out/float (m)

2462.3/N.A

Source: Bloomberg, Blue Lotus (as of Jun. 17,2021)

Key Changes

	New	Old	Diff
BLRI Recommendation	BUY	NR	-
BLRI Target Price	17.5	-	-
2021E EPADS (US\$)	1.02	-	-
2022E EPADS (US\$)	1.13	-	-
2023E EPADS (US\$)	1.20	-	-

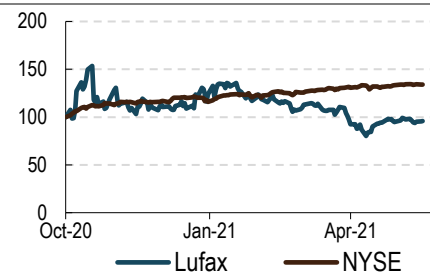
Source: Blue Lotus (as of Jun. 17,2021)

BLRI vs. The Street

No. of Bloomberg Recommendations	14
Target price vs. Bloomberg mean	3.5%
1-year-fwd EPS vs. Bloomberg mean	(4.8%)
Bloomberg recommendation	4.20

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY)(as of Jun. 17,2021)

Price performance and volume data



Source: Bloomberg, Blue Lotus (as of Jun. 17,2021)

Research team



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Lufax Holding Ltd: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

RMB (mn)	2020A	2021E	2022E
Total income	52,046	63,117	70,521
-Tech platform income	41,223	42,557	48,538
-Net interest income	7,751	13,373	15,084
-guarantee income	602	3,504	4,310
-other income	1,516	2,325	1,595
-investment income	939	1,386	968
- profit of equity investment	14	(29)	26
Total Operating Expense	(28,612)	(29,613)	(32,929)
-Sales and marketing	(17,813)	(17,384)	(19,223)
-General and Administrative	(2,975)	(3,172)	(3,473)
-Operation and servicing	(6,032)	(7,155)	(8,144)
-Research and development	(1,792)	(1,901)	(2,089)
Impairment losses	(3,043)	(7,590)	(8,426)
Finance cost	(2,865)	(1,348)	(1,348)
Other gain and losses	385	7	239
Pre-tax income	17,911	24,573	28,057
Less: Income tax expenses	(5,633)	(7,659)	(8,838)
Net Profit	12,278	16,915	19,219
Net profit att to SH	12,356	16,915	19,219
Net Profit, Non-GAAP	13,604	16,915	19,219

Source: Lufax, Blue Lotus (as of Jun. 17,2021)

Exhibit 2. Balance sheet

RMB (mn)	2020A	2021E	2022E
Cash	24,159	32,955	49,957
Restricted cash	23,030	23,030	23,030
Financial assets	41,688	41,688	41,688
Accounts and other receivables	23,326	30,248	33,796
Loans to customers	119,826	165,307	188,781
Deferred tax assets	3,359	3,359	3,359
Property and plant	424	382	346
Other assets	13,079	13,233	13,418
Total assets	248,890	310,200	354,375
Accounts and other payables	124,966	165,834	188,653
Borrowings	10,315	10,315	10,315
Convertible notes & shares	17,648	17,648	17,648
Other liabilities	12,809	14,864	17,243
Total liabilities	165,739	208,662	233,859
Share capital	0	0	0
Share premium	33,213	33,213	33,213
Treasury shares	(0)	(0)	(0)
Other reserves	7,419	7,419	7,419
(Accumulated losses)/RE	40,928	60,906	79,884
Non-controlling interest	1,591	-	-
Total equity	83,151	101,538	120,516
Total Liability and equity	248,890	310,200	354,375

Source: Lufax, Blue Lotus (as of Jun. 17,2021)

Company Description

Lufax is China's leading financial service platform by offering personal lending and wealth management services. By 2020, Lufax recorded RMB 545bn total loans facilitated, and ranked No. 2 among non-traditional financial service providers.

Industry View

Internet finance continues to benefit from technology innovation and companies are dedicated to satisfied demand from users who are underserved by traditional financial institutions. According to data released by People's Bank of China, loans facilitated by non-traditional service providers exceeded RMB 4tn, and online penetration rate reached about 14%.

Exhibit 3. Cash flow statement

RMB (mn)	2020A	2021E	2022E
Profit before tax	17,910	24,573	28,057
Depreciation and amortization	863	751	874
Share of profit of JV	(15)	-	-
Impairment loss	2,776	-	-
Others	2,734	1,707	1,088
Foreign exchange	(192)	-	-
(Increase)/Decrease in receivables	(68,897)	(52,403)	(27,022)
Increase/(Decrease) in payables	56,167	40,868	22,818
Income tax paid	(4,223)	(7,659)	(8,838)
Cash generated from operating activity	7,121	7,837	16,976
Gains from sale of PPE	(203)	26	27
Gains from sale of investment asset	(15,999)	-	-
Gains from disposal of subsidiary	(40)	-	-
interest received	1,239	933	-
Cash generated from investing activity	(15,004)	959	27
Issuance of shares	18,908	(0)	-
Change in borrowing	7,714	-	-
Lease liability	(597)	-	-
Interest expense	(1,151)	-	-
Cash generated from financing activity	24,874	(0)	-
Effect of exchange rate	(518)	-	-
Net increase in cash and cash equivalents	16,474	8,796	17,003
Cash at beginning	7,352	24,159	32,955
Cash at end	24,159	32,955	49,957

Source: Lufax, Blue Lotus (as of Jun. 17,2021)

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Recent Reports

May 31, 2021: **Meituan (3690 HK, HOLD, TP HK\$310) Target Price Change**: Growth is solid in near term, raise TP to HK\$310.

May 28, 2021: **VIOMI (VIOT US, HOLD, TP US\$8.8) Target Price Change**: True IOT take off needs builder integration

May 28, 2021: **Li Auto (LI US, BUY, TP US\$31.6) Earnings Review**: 2021 Li One might be a milestone

May 28, 2021: **XPeng (XPEV US, HOLD, TP US\$37) Rating Change**: Upgrade to HOLD on fundamental improvement

May 28, 2021: **Pinduoduo (PDD US, BUY, TP US\$190) Target Price Change**: Strong revenue amid slower user growth, cut TP

May 27, 2021: **Xiaomi (1810 HK, BUY, TP HK\$35) Target Price Change**: Good time will continue for a while

May 27, 2021: **[Blue Lotus Sector Update]: Time for reassessing the attractiveness of the sector**

May 27, 2021: **Alibaba Health (241 HK, HOLD, TP HK\$22) Target Price Change**: Online pharmacy potential is fully priced in

May 27, 2021: **Huazhu (HTHT US, HOLD, TP US\$52) Earnings Review**: 1Q slightly beat; overseas recovery remains weak

May 25, 2021: **Agora (API US, HOLD, TP US\$35) Rating Change**: R&D cost may not lead to revenue reacceleration

May 24, 2021: **Tencent (700 HK, BUY, TP HK\$806) Target Price Change**: High spending in upcoming quarters

May 21, 2020: **JD.com (JD US, BUY, TP US\$110) Earnings Review**: Reinvestment leads to robust user/rev. growth

Investment Cases at a Glance

Why is it a Buy

Demand for loans is still solid

We estimate that China's operating loans/consumption loans (excluding house mortgages) will have 12%/5% CAGR from 2021-2023, and reach RMB 19.3/17.5 tn by 2023. Key drivers of the demand include: increasing but unserved demand from small and median enterprises, plus the fast and convenient application process of loan application brought by new technology. We also estimate that China's wealth management market will grow at 10% CAGR from 2021-2023, and the online wealth management market will grow even faster, at 35% CAGR. This is mainly driven by the improved Chinese citizens' income, as well as the different investment behavior of the younger generation.

A beneficiary of recent anti-monopoly campaign

We have seen both Ant Group and WeChat required by regulators to share some of their payment data, and believe that more data, including users' behavior data may be included in the future. Lufax is likely to close the gap between itself and these leading players and more accurately promote its product after such databases are opened. Meanwhile, the recent regulatory campaign will further speed the sector consolidation, as the Supreme Court has issued guidance for private lending LPR and thus decrease the profitability of smaller players in the sector. Lufax, as one of the largest financial institutions with a comprehensive license, may acquire more market share after those small loan companies get wiped out.

Valuation is attractive

Lufax is now traded at 12X PE/ 2.0X PB/ 21% ROE by 2021, which is on the same level as other top tier traditional banks like CMB (13X PE/ 2.0X PB/ 16% ROE by 2021). We believe Lufax deserves higher valuation than banks because it still has a proportion of revenue coming from the online channel, its synergy with Ping An Group, leading market position, and low delinquency rate.

What are the key catalysts for the next 3-6 months?

Progress of Ant and WeChat's data sharing

There has not been much official announcement after the regulatory authorities asked both Ant and WeChat to share data. We believe regulators are trying to transfer exclusive data, like payment and consumption data from Alipay and WeChat Pay, to a public database so that financial institutions can access. Lufax may continue to benefit as this campaign progresses.

Lufax could maintain its lending interest rate

As a licensed financial institution, Lufax may not have to follow the China Supreme Court's new guidance, which changed the upper limit of private lending interest rate from fixed 24% YoY to 4X LPR. To avoid any potential risk, Lufax lowered new loans' APR to ~24% starting 3Q20, compared with previous 26.5%. Unless regulators show further interest in monitoring financial institution, Lufax does not have to decrease its APR.

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May 21, 2020: **Vipshop (VIPS US, BUY, TP US\$40) Target Price Change]: Cut TP for increasing pressure of user acquisition**

May 20, 2020: **[ZTO Express (ZTO US, BUY, TP US\$35.8) Target Price Change]: Stable sailing in turbulent waters...Maintain BUY**

May 20, 2020: **KE Holdings (BEKE US, BUY, TP US\$60) Target Price Change]: Anti-monopoly starts to take its toll**

May 20, 2020: **Yatsen Global (YSG US, SELL, TP US\$6.8) Target Price Change]: C2Q21 guidance disappointing; Reiterate SELL**

May 20, 2020: **NetEase (NTES US, BUY, TP US\$143) Earnings Review]: A competitive gaming pipeline is ahead, maintain BUY**

Mat 20, 2020: **SEA Limited (SE US, BUY, TP US\$342) Earnings Review]: C1Q21 review: Upward outlook on market expansion**

May 20, 2020: **Miniso Group (MNSO US, BUY, TP US\$33) Target Price Change]: Domestic market to be the near-term focus**

May 20, 2020: **Baозun (BZUN US, BUY, TP US\$52) Earnings Review]: Progress of omni-channel strategy is promising**

May 19, 2020: **Tencent Music (TME US, HOLD, TP US\$17) Target Price Change]: Cut TP on lower expectation of social entertainment**

May 19, 2020: **Trip.com (TCOM US, BUY, TP US\$48) Rating Change: Upgrade to BUY on promising C2Q21 outlook**

Lufax gains the investment advisory certificate.

Lufax's application for an investment advisory certificate is currently under review. Take rate of investment advisory maybe as high as 0.5%, twice Lufax's average take rate of current products. We estimate that investment advisory related products could increase Lufax's wealth management revenue by 4%-6% by 2022.

Where can we be wrong?

Cessation of bank deposit products offering

Bank products account for about 44% of Lufax's 2020 current client assets, and 28% of revenue from current products. In response to regulatory changes, Lufax ceased to offer bank deposit products starting December 2020. Lufax may offset the negative impact from bank deposit products by introducing other bank wealth management products.

Failure to maintain credit loan facilitation take rate

Lufax's credit facilitation take has decreased from 10.9% in 2018 to 9.5% in 2020, mainly due to the lower APRs charged to borrowers. Our recent study indicates that Lufax's APR will be steady in the near term, and it may continue to optimize cost structure to improve its take rate in 2021.

What can change our view?

Regulation poses much wider impact

We believe that regulators' attitude accelerates the process of sector consolidation and benefits leading players. However, as the regulation toward internet finance/consumer loans may continue, Lufax may also be impacted if stricter regulations are proposed, such as more restrictions on APRs, wealth management products, borrower qualifications, etc.

Traditional banks may catch up quickly after data sharing

In our view, if Ant and WeChat are finally required to share their most precious users' behavior data, then companies with data processing ability but lacking data sources may quickly improve credit risk assessment and user acquisition ability. However, it is not clear whether traditional banks will also be able to make better use of such data and thus gain credit market share from online lending players.

Change of risk-sharing may impact profitability

Lufax plans to raise the risk-bearing ratio of newly facilitated loans to 20% by FY2021, vs 2.2% of FY2020. This may greatly improve Lufax income, especially net interest income and guarantee income. However, profitability may be impacted if severe default risks arise and lead impairment losses to increase.

Operating Metrics

Exhibit 4. Quarterly P&L table

RMB(mn)	1Q2020A	2Q2020A	3Q2020A	4Q2020A	1Q2021A	2Q2021E	3Q2021E	4Q2021E
Total income	13,046	12,638	13,076	13,286	15,251	14,821	16,529	16,455
Sales and marketing	(4,606)	(4,309)	(4,885)	(4,233)	(4,360)	(4,868)	(4,844)	0
General and administrative	(688)	(659)	(642)	(986)	(854)	(728)	(762)	(825)
Operation and service	(1,292)	(1,527)	(1,562)	(1,650)	(1,521)	(1,808)	(1,897)	(1,930)
Research and development	(413)	(436)	(482)	(461)	(447)	(437)	(527)	(489)
Operating Profit, IFRS	(6,407)	(7,228)	(6,995)	(7,982)	(7,055)	(7,334)	(8,053)	(8,088)
Impairment losses	(502)	(597)	(952)	(992)	(1,053)	(2,098)	(1,767)	(2,672)
Finance cost	(446)	(441)	(1,652)	(326)	(284)	(441)	(297)	(326)
Other gains	71	(25)	144	194	(138)	44	61	40
Profit before tax	5,762	4,347	3,622	4,180	6,721	4,992	6,474	5,409
Taxation	(1,576)	(1,260)	(1,464)	(1,333)	(1,752)	(1,248)	(2,617)	(1,725)
Net income	4,186	3,087	2,157	2,847	4,969	3,744	3,857	3,684
Number of ADS, diluted	N/A	N/A	2,438	2,438	2,438	2,438	2,438	2,438
EPADS (RMB)	N/A	N/A	0.90	1.18	2.05	1.54	1.58	1.51

Source: Lufax, Blue Lotus (as of Jun. 17, 2021)

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Emerging platforms play important roles in the credit market

Demand for consumer/operating loan remains strong

China's GDP grew at CAGR of 4.9% from 2018-2020. At the same time, disposable income per capita grew at 7.4% to reach RMB 32,189 per year. The increasing spending capability, new consumption habit from younger generation, plus the stronger demand for operating capital for business, together gave rise to the flourishing China credit market.

Large TAM supported by PBOC evidence

According to PBOC's public data, household loan (or personal loan) in China can be divided in to house mortgages, operating loans, and consumption loans. We choose to neglect house mortgages when discussing Lufax, since such demand is less frequent and basically serviced only by merchant banks. China's operating loan/consumption loan market size reached RMB 13.6tn/15.1tn by FY2020, representing 20%/9% YoY growth. Overall, we estimate that China household loans to grow at 9% CAGR to reach RMB 36.8 tn by 2023. We also estimate that credit facilitated by emerging platforms is about RMB 4.1tn, or 14.2% of TAM, vs. 9% of 2018 (See Exhibit 5.)

Emerging platforms solve the matching/efficiency problem

We see that traditional financial institutions still play the major roles in China's loan market, and emerging fintech platforms' market share continues to grow: 1) Merchant banks typically provide secured loans to its customer, which feature a longer application process and collateral required. Under this condition, certain user groups may be underserved, such as recent graduates, small and median enterprise (SME) owners. 2) Rich traffic from emerging platforms (Ant, Wechat, Lufax, Lexin, etc) has provide them with opportunities to touch those potential users who are unserved by merchant banks. 3) Big data analysis has helped fintech companies to improve their credit risk valuation system and make unsecured loans available to their users, thus reduce time spent in the application process.

Traditional financial institutions' credit application processes are relatively long and redundant, compared to emerging online platforms

Exhibit 5. China household loan market size

RMB(bn)	2018	2019	2020	2021E	2022E	2023E
Household Loans	22,145	25,280	28,750	31,608	34,253	36,754
YoY growth %	18.7%	14.2%	13.7%	9.9%	8.4%	7.3%
-Fintech companies	2,011	3,389	4,073	4,790	5,471	6,146
YoY growth %	63.5%	68.5%	20.2%	17.6%	14.2%	12.3%
Online penetration %	9.1%	13.4%	14.2%	15.2%	16.0%	16.7%
-Traditional institutions	20,134	21,890	24,677	26,818	28,782	30,609

Source: PBOC, Blue Lotus (As of Jun. 17, 2021)

Exhibit 6. Breakdown of operating loan

RMB(bn)	2018	2019	2020	2021E	2022E	2023E
Operating loans	10,094	11,352	13,618	15,661	17,540	19,294
YoY growth %	12.3%	12.5%	20.0%	15.0%	12.0%	10.0%
-Traditional Institutions	9,401	10,474	12,558	14,335	15,949	17,417
YoY growth %	11.0%	11.4%	19.9%	14.2%	11.3%	9.2%
-Fintech companies	693	879	1,061	1,326	1,591	1,877
YoY growth %	33.7%	26.7%	20.7%	25.0%	20.0%	18.0%
penetration %	6.9%	7.7%	7.8%	8.5%	9.1%	9.7%

Source: PBOC, Blue Lotus (As of Jun. 17, 2021)

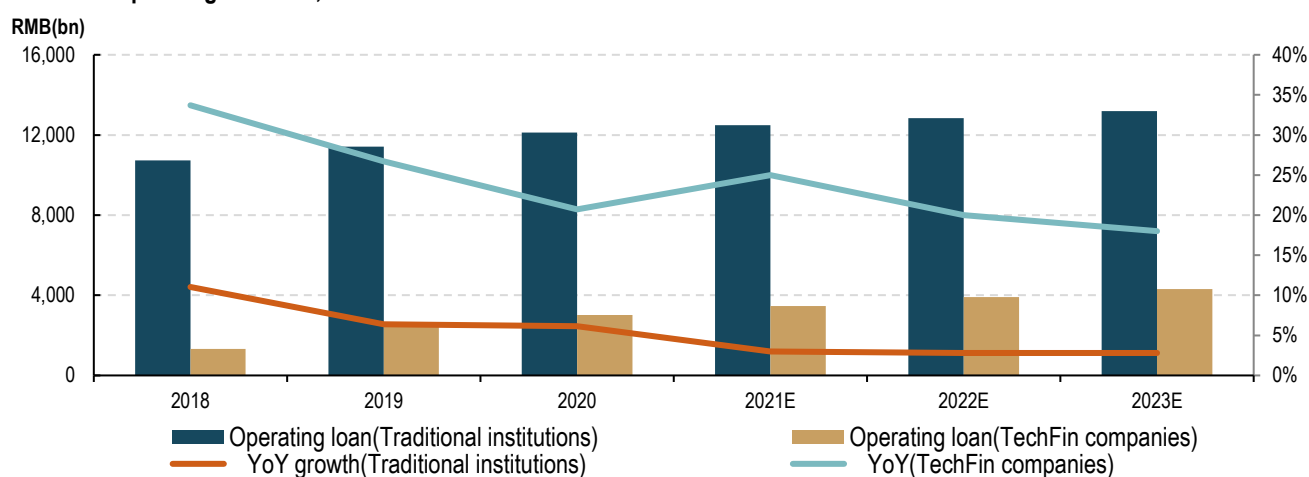
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Exhibit 7. Breakdown of consumption loan

RMB(bn)	2018	2019	2020	2021E	2022E	2023E
Consumption Loans	12,051	13,927	15,132	15,948	16,747	17,498
YoY growth %	24.6%	15.6%	8.7%	5.4%	5.0%	4.5%
-Traditional institutions	10,734	11,416	12,119	12,483	12,832	13,192
YoY growth %	19.8%	6.4%	6.2%	3.0%	2.8%	2.8%
-Credit Card	6,850	7,590	7,970	8,209	8,392	8,392
-consumer finance balance	3,884	3,826	4,150	4,648	4,439	4,716
-Fintech companies	1,318	2,511	3,013	3,465	3,915	4,307
YoY growth %	85.32%	90.55%	20.00%	15%	13%	10%

Source: PBOC, Blue Lotus(As of Jun. 17, 2021)

Exhibit 8. Operating loan size, traditional vs fintech



Source: PBOC, Blue Lotus(As of Jun. 17, 2021)

Lufax is a leading player that provides unique value

PAG is the major shareholder and provides solid support

Lufax acquired its credit facilitation business from Ping An Group (PAG) in 2016, and the history of this business dated back to 2005, when Ping An Group launched a consumer loan business. Ping An Group owns 39% of Lufax outstanding shares, ranking 2nd among shareholders. We see that Lufax receives solid support from PAG: 1) PAG has strong reputation nationwide, as a top 2 Fortune 500 financial institution and has remained China's most valuable insurer. 2) PAG builds up a complete ecosystem offering services among insurance, banking, securities, trust, investment, leasing, healthcare, and technology. 3) Credit enhancement/guarantee. As of December 2020, PAG insured about 85% of Lufax's outstanding loan balance, repaid non-performing loans (NPL) to lenders, and thus made Lufax's cash position unaffected when loans become delinquent.

Key subsidiaries of PAG includes Lufax, Ping An Bank, Ping An Good Doctor, OneConnect.

Synergy with PingAn Group lies in user/data sharing

We believe that two aspects are most important while considering PAG's support to Lufax: 1) User Acquisition. Lufax is able to introduce its products to 218mn Ping An ecosystem customers through the nationwide network, including over 280 active channel partners. 2) Data availability. Different from traditional institutions, fintech companies utilize users' data in daily operation. Lufax may collect extensive data from Ping An Group's subsidiaries. For example, Lufax is able to build credit models for customers by accessing Ping An Group's data base and determine consumers condition relative to real estate assets, vehicle, and medical insurance policies.

High ticket-sized/unsecured loans make Lufax unique

As of 2020, Lufax ranked No. 2 among China's non-traditional financial institutions in the retail credit market, with outstanding loans' balance of RMB 545bn. On the other hand, we see that Lufax currently operates in a market with fewer competitors: About 77% of Lufax's outstanding loan balance are unsecured loans, with average ticket size of RMB164 k. This characteristic is different from secured loans of banks and small-ticket size loans of online lending platforms. Therefore, we believe Lufax's target customer base may be different from its competitors': 1) Ages 35-50 ; 2) Are mostly small business owners whose funding demands come from operating activities. Lufax may serve as the go-to platform for business owners who urgently needs operating funds between RMB 150,000-400,000

Fast application with high credit limit

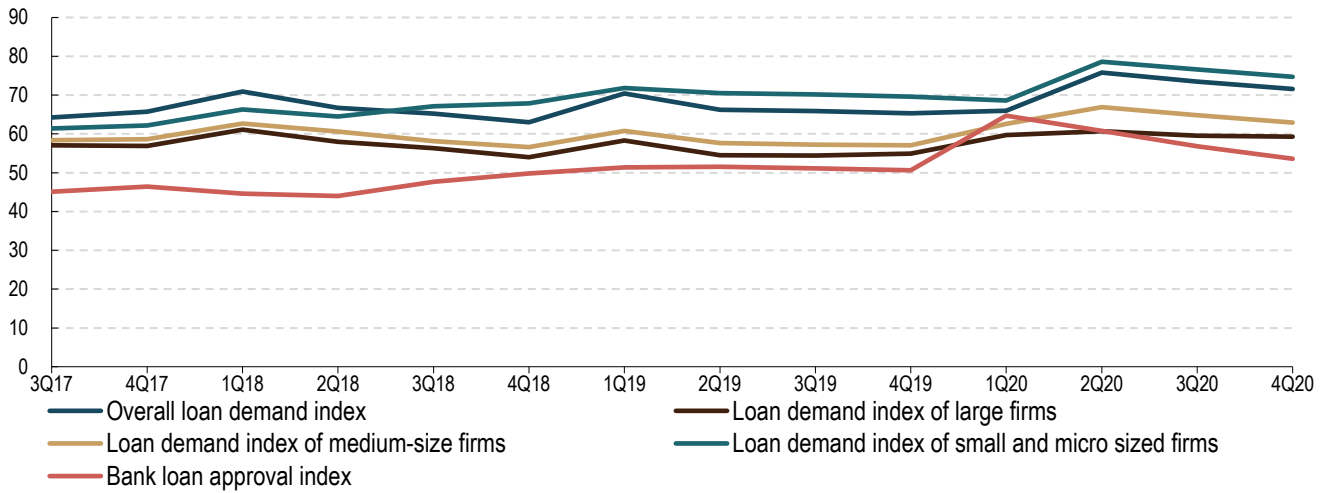
Lufax's loan applications are mostly made and processed online, through a mobile app called Ping An Puhui. Users will receive an initial evaluation and loan limit after registration. Furthermore, Lufax also decided to simplify the loan application process. Service for existing customers with good repayment methods will be automated, faster, and easier.

Bank credit services are not sufficient for Lufax's existing customers: As of 2020, more than 40% of Lufax's borrowers had outstanding loans from other banks. We believe that low credit line, long audit cycle, and cumbersome approval process play important roles in users' choice of switching to online lending. Lufax is capable of offering up to RMB 300,000 unsecured loans to customers with approved mortgages/automobile/life insurance, and RMB1 mn secured loans to customers with operating business license/proof of value-added tax.

Average ticket size of Lufax's major competitors is much lower: Ant Group's Huabei ticket size was around RMB 2,000 and RMB 8,000 for Jiebei.

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Exhibit 9. Banker questionnaire index (unit: %)



Source: PBOC, Blue Lotus (as of Jun. 17, 2021)

Exhibit 10. PingAn Puhui App

Hi智能助手小惠随时为您服务哦!

- 生意人专属** **平安普惠微营贷**
 - 最高 100 万
 - 越多资质越高额
 - 小微业主超低价
- 车主客专属** **平安普惠车e贷**
 - 最高 50 万
 - 额度可达车价3倍
 - 最快1小时放款
- 一般客通用** **平安普惠易贷**
 - 最高 30 万
 - 全线上申请
 - 流程简无抵押
- 房主客专属** **平安普惠宅e贷**
 - 最高 1000 万
 - 准入宽
 - 循环动用

综合年化成本11.3% - 23.9%

Source: Lufax, Blue Lotus (as of Jun. 17, 2021)

Exhibit 11. PingAn Puhui credit evaluation

贷款申请到批准全流程最快仅需 20分钟

多渠渠 线上申请 及时出额 批准 线上签约 放款

100%线上申请

AI客服

无感出额

无感风控

领先的防欺诈

下载App 统一申请入口 多种渠道授信 智能审批 线上签约 极速放款

Source: Lufax, Blue Lotus (as of Jun. 17, 2021)

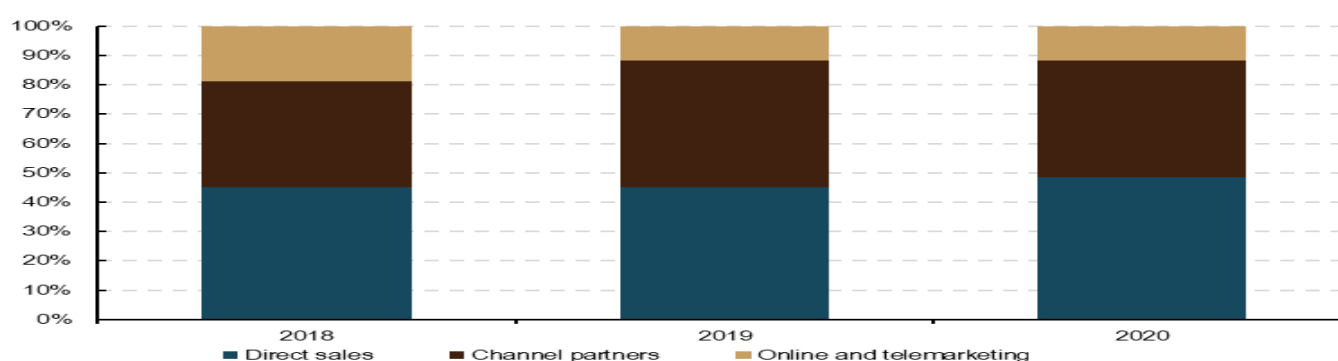
Data availability may not be an issue

One key difference between emerging online platforms and traditional financial institution is the collection and use of data, in various aspects, including product matching, risk assessment, pricing, etc. While Lufax may be seen to lag behind of its major online competitors by data availability, we believe this would not be an issue in the near term.

Customers basically come from offline

Unlike other leading internet lending platforms that either possess rich amounts of users or efficiently acquire external traffic by online marketing, Lufax gains most of its customers from offline; as about 12% of its facilitated loans come from online/telemarketing. We believe that this is due to Lufax's lack of online consumption scenario and its strong offline sales team, which lead to its adoption of current O2O credit facilitation model.

Exhibit 12. User acquisition channel breakdown



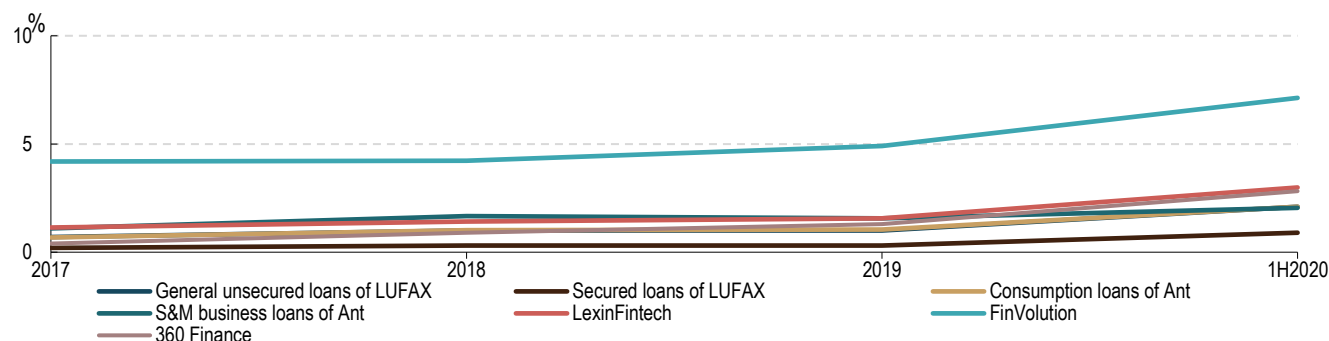
Source: Lufax, Blue Lotus (as of Jun. 17, 2021)

Satisfying delinquency rate due to strong offline mode

Lufax's DPD 90+ delinquency rate for general unsecured loans was 1.6% in 2019, slightly over Ant's 1.1% and other competitors' 1.3%-4.9%. We believe that even though Lufax's business model relies heavily on offline scenarios, it still manages to handle the default risks at a certain scale. On the other hand, such mode also helped Lufax to bear less loss during the COVID-19 breakout: While major online lending platforms' DPD90+ rate surged to as high as 7.1% in 1H20, Lufax's delinquency rate was 2.1%, similar to that of Ant Group.

DPD 90+ delinquency rate for total loans has recovered to 1.1% as of 1Q21, vs 0.8% in 2019.

Exhibit 13. DPD 90+ delinquency rates by type of loan (%)



Source: Company filings, Blue Lotus (As of Jun. 17, 2021)

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Lufax may benefit from peers' shared data

Consumers' behavior helps platforms to model its credit score and thus improve default risks/enhance operating efficiency. Lack of user and user time spent eventually leads to lack of data. As of today, Lufax purchases external data from third parties and spends less on in-house data research and development. In March, media reported that Ant Group has started to share part of its 500mn financial service users' data with regulatory authorities, like PBOC and CBIRC. Shared data includes personal identity, outstanding loan balance, amounts due, etc. It was also noted that regulators expect Ant to provide more data from different directions, so as to closely monitor the financial risk across the country. We see that such guidance/requirement is not only for Ant, but for all emerging lending platforms. We expect that other peers, such as WeChat, will also eventually join the group and more detailed data will be available for the whole sector. Lufax may at least be able to better manage its risk exposure and thus improve operating efficiency due to financial data availability.

Regulatory policies show temporary pressure

Internet finance is a relatively new business in China, and it underwent several rounds of regulatory supervision, including the rise of P2P finance in 2014 and the complete exit of it in 2020. We believe that the stricter regulatory environment may impact Lufax's profitability in the short term, but will benefit the industry in the long run.

New regulation may impact APRs throughout the industry

In 2020, the China Supreme Court issued an amendment and changed the upper limit of private lending interest rate from a fixed 24% YoY to 4X Loan Prime Rate (LPR). This indicates that private-lending interest charge beyond 4X LPR will be classified illegal. We think that the Supreme Court's decision may pose long-term negative impact on most of the private lending companies' cost structure because funding cost can be as high as 10%, while 4X LPR was around 15.4% as of 2020.

Take rate may be better than expected

Take rate of Lufax was on a decreasing trend in the last two years, down from ~10.9% of 2018 to ~9.5% of 2020. Reasons for take rate decreases mainly comes from price competition from online lending platforms and mostly stricter regulations towards APRs. However, we expect that Lufax's take rate to remain stable starting in 2020: 1) Lufax will be able to maintain its APR around ~24% since it acquired a consumer finance license in April 2020. According to former Supreme Court cases, platforms with such licenses will not be determined as "private lending" company and are refrained from 4X LPR limit. 2) Cost control: Thanks to the leading market position, plus solid support from Ping An Group, Lufax is able to offset the loss of APRs by decreasing its funding cost from previous ~7.5% to recent ~6.6%.

User/traffic cost for small players like P2P lending platforms could be as high as 10% of loan balance, while funding cost may add up another 7-10%.

Long-term positive due to market consolidation

We believe Lufax will benefit from regulatory authorities' stricter policies, as smaller players may be squeezed out: Among Lufax's ~26% APR, about 7.0%/7.5%/2.0% are funding cost/guarantee cost/other loss (mainly early repayment), leaving take rate at ~9%. We estimate that Lufax will take steps to maintain its APR/take rate at about 24%/9%, due to continuously improved funding cost and guaranteed cost by higher quality of borrowers. We think that most of the small online lending platforms (without consumer finance license) may suffer from lower take rate caused by the 15.4% APR restriction, and eventually get squeezed out (See Exhibit 14).

Exhibit 14. Regulatory documents related to internet finance, 2020-2021

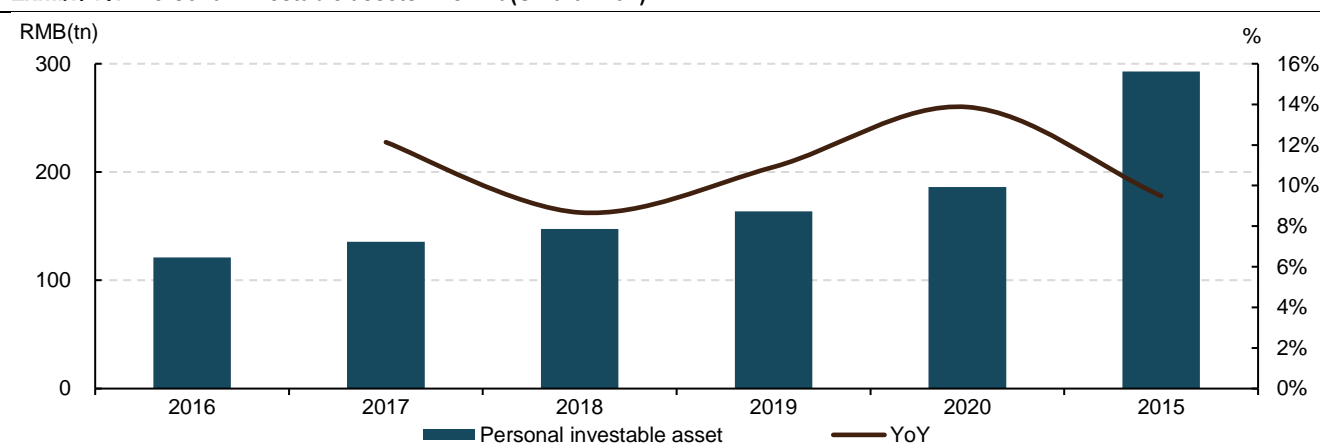
Date	Law/Policy	Highlight
Jul 2020	Interim Measures for the Administration of Online Loans by Commercial Banks(CBIRC)	Targeting at merchant banks that cooperate with online platforms Credit limit should not exceed RMB 200k per person Core risk evaluation should not be outsourced
Aug 2020	Decision on Amending the Provisions of the Supreme People's Court on Several Issues the Application of Law in the Trial of Private Lending Cases(SPC)	Introduced 4X LPR as APR cap for private lending cases
Nov 2020/Jan 2021	Interim Measures for Administration of online Micro-loan(CBIRC) / Circular 24 (CBIRC)	Requires joint lending partners' funding portion to be at least 30% Banks' loan balance with a single RCF partner should not exceed 25% of its tier-1 capital Banks' loan balance under RCF mode should not exceed 50% total loan balance
Jan 2021	Civil Code(NPC)	Prohibits lenders to deduct interest from the principal of loans in advance
Jan 2021	Notice on Regulating Personal Deposit Business by Commercial Banks through the internet(CBIRC)	Prohibits commercial banks from cooperating with online platforms on deposit business

Source: PBOC, CBIRC,SPC,Blue Lotus(As of Jun. 17,2021)

WM is recovering with robust growth

According to data from Oliver Wyman, personal investable assets in China reached RMB 160tn by 2019 and are estimated to reach RMB290 tn by 2025, growing at CAGR of ~10%. The number of high-net-worth individuals with personal investable assets of more than RMB10 mn grew by 394% to 1.97 million in eight years through 2018. The affluent population with personal investable assets of less than RMB 10mn contributed 27% of wealth management income with 17% of AuM, which indicates that the contribution of unit assets of this group was higher. On the other hand, about half of China citizens' investable assets are still in the form of cash or savings that have not yet been tapped by wealth-management institutions.

Exhibit 15. Personal investable assets in China(Unit: trillion)



Source: Oliver Wyman, Blue Lotus (As of Jun. 17, 2021)

Low penetration, with saving to be the largest product

Online wealth management AUM grew from RMB 3.15tn of 2018 to RMB 15.5tn of 2020, representing CAGR of 70% and online penetration of 8.3%. We expect online wealth management market size to be RMB 47tn by end of 2025, representing online penetration of 16%.

Exhibit 16. China wealth management market size

(RMB tn)	2016	2017	2018	2019	2020	3-yr CAGR	2025E
Bank Saving	61	65	72	82	93	13%	150
Bank Wealth Management	17	20	22	23	26	8%	33
Equity & stock	10	10	7	10	12	8%	15
Trust	10	14	12	11	11	-6%	11
Mutual Fund	9	12	13	15	20	19%	40
Private equity Fund	3	2	2	2	4	18%	8
Others	12	13	19	20	20	15%	35
Total	121	136	147	164	186	11%	293
Online wealth management	2.6	3.2	7.2	10.9	15.5	69%	47
Penetration	2.1%	2.3%	4.9%	6.7%	8.3%		16.1%

Source: Oliver Wyman, PBOC, AMAC, Blue Lotus (As of Jun. 17, 2021)

“Z Generation” and millennials may drive penetration higher

We see that millennials and those born after 2000 have become the main force in the wealth-management market in the next few years. According to a report of the Boston Consulting Group, mobile payment utilization of this group is close to 100%, while that of elders (age over 50) is only

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about 50%. Also, millennials are growing up with the rise of technology companies, which makes it easier for them to trust technology companies. We believe that investor education and traffic allocation of top internet giants will eventually lead to higher penetration of online wealth management services.

New guidelines support non-traditional asset management products

According to the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions, published in 2018, no financial institution transacting asset management business shall undertake to guarantee principal and returns. In other words, financial institutions do not hold responsibility and pay bailout when certain products incurred unexpected difficulties. The new regulations will help financial institutions reduce the risks that should be borne by investors to avoid asset management products that ignore risks in pursuit of returns. Also, allowing investors to correctly understand the risks needed to take in investment helps them establish correct wealth management concepts, which is conducive to the long-term development of the wealth management industry.

Riding on tailwind of China's fast-growing middle class

Lufax's current target customers are middle class and affluent people who differ from the high-net-worth clients of private banks and the mass clients of fintech competitors: 1) Lufax's average AUM is larger than its online competitors: As of 2020, the average client assets per active investor of Lufax reached RMB28 k, more than three times that of its major online wealth management competitor. 2) Contribution from middle-class clients continues to grow: As of December 31, 2020, contribution from customers with investments of more than RMB300 k on Lufax's platform increased to 75.5% and the contribution of customers with investments of more than RMB1 mn accounted for 51.7% as of 2020.

Wide range of products/different user profile

As 2020, Lufax has carried out extensive cooperation with third-party financial institutions to offer more than 9,500 asset management products, including asset management plans, mutual funds, trust plans, factoring products, structured deposits, bank wealth management products, corporate bonds, and private funds. Different from other online platforms that rely heavily on money-market funds (MMF), more than 50% of Lufax client assets reside in other asset management plans and bank products. MMF only takes about 5% of Lufax AUM.

Tailor-made WM solutions powered by technologies

The needs of the middle class and affluent investors for investment products and services are more complex than most non-customizable products provided by other online platforms. Lufax developed a customer recognition system with know your customer (KYC) and know your intention (KYI) as the core. The KYC label system and KYI model system fully cover various information and behaviors of customers, such as trading history, consumption characteristics, service preference, and product preference, combined with AI technology to identify and predict the potential intentions of customers to provide more tailor-made wealth management solutions and services. Combining the KYC and KYI systems with know your product (KYP), the system can automatically provide customers with products that meet their needs and save labor/time costs.

Client retention was not affected by cessation of P2P WM offering

Lufax historically offered business-to-consumer (B2C) products and peer-to-peer (P2P) products (AKA legacy products), which accounted for 72.9% (RMB336.4 bn) of total AUM in 2017. Due to

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the regulatory requirement, Lufax ceased to offer such products starting in late 2017. As of June 30, 2020, legacy products decreased by 86% to RMB 47.8 bn. However, we believe that Lufax has successfully retained most of its clients by offering new asset-management products: The AUM of current products increased from RMB125.3 bn in 2017, to RMB407.2 bn in 2020, while total clients grow from 9.6 mn in 2017 to 14.9 mn in 2020. The retention rate of Lufax has shown steady improvement from 91% as of 2018, to 96.8% as of 2020.

Lufax's expansion of overseas markets

Lufax launched its business in Singapore and Hong Kong in 2017 and 2019 to develop partnerships with Asian financial institutions and attract investable assets held by wealthy overseas Chinese under local regulations. However, the wealth management industry in these regions is more developed than that in Mainland China. It remains to be seen whether Lufax can seize market share from fierce competition in overseas markets.

Valuation and peer analysis

- We forecast Lufax total income to reach RMB 78.6bn by FY2023, growing at CAGR of 14.7%, primarily driven by stable RCF take rate and increasing client AUM. We forecast Lufax net profit to reach RMB 21.1bn by FY2023, growing at CAGR of 19.5%, primarily driven by mix of high-quality borrowers and control over funding/sales cost ratio.
- In our DCF model, we assume 10.0% WACC and a 3.0% terminal growth rate to perform the valuation for Lufax. Our DCF valuation model arrives at the target price of US\$ 17.5. For FY21/22, we estimate net profit to be RMB 16.9bn and 19.2bn, and EPADS to be RMB 6.65 and 7.33, respectively
- Our TP of US\$ 17.5 for Lufax implies market cap of US \$43bn, and FY22 PB/PE of 2.3X/15X, higher than its merchant bank peers' average of 1.6X/11X, and online lending peers' average of 0.7X and 4.7X. This is justified by Lufax's higher profit margin and ROE vs. its peers.

Exhibit 17. DCF valuation table

RMB(mn)	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Revenue	52,046	63,117	70,521	78,628	84,480	89,900	95,408	100,650	105,645	110,435	115,007
Operating profit	23,434	33,504	37,592	42,322	45,585	48,351	51,164	53,801	56,223	58,513	60,656
NOPAT	16,064	23,062	25,750	28,991	31,226	33,120	35,047	36,854	38,513	40,082	41,549
Depreciation and amortization	863	751	874	1,021	1,197	1,364	1,554	1,770	2,011	2,279	2,576
Changes in WC	(12,730)	(11,535)	(4,204)	(4,120)	(3,082)	(3,161)	(3,176)	(3,036)	(3,009)	(2,947)	(2,880)
Capex	176	199	221	252	284	320	362	409	462	521	589
Free operating cash flow	4,372	12,476	22,641	26,143	29,625	31,643	33,788	35,997	37,976	39,935	41,834
WACC		13.5%									
NPV of FoCF		267,132									
+ Net cash (debt), current		11,772									
- Minorities (Market value)		1,591									
= Equity value (RMB mn)		280,495									
Shares outstanding(mn)		2,462									
Implied TP(USD)		17.5									

Source: Lufax, Blue Lotus (as of Jun. 17,2021)

Exhibit 18. ROE, Lufax vs. merchant banks

	2018A	2019A	2020A	2021E	2022E	2023E
Lufax	47.8%	32.0%	20.5%	18.2%	17.2%	15.9%
CMB	16.5%	16.8%	15.7%	N/A	N/A	N/A
Ping An Bank	11.5%	11.3%	9.6%	N/A	N/A	N/A
Mingsheng Bank	12.9%	12.4%	6.8%	N/A	N/A	N/A

Source: Lufax, Company filings, Blue Lotus (as of Jun. 17,2021)

Exhibit 19. Peer comparison table

Company	Ticker	Price	Market Cap	PB(Consensus)			PE(Consensus)			Recommendation
		(Local)	(US\$m)	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E	Blue Lotus
Lufax Holding	LU US	12.4	30,582	2.5	1.9	1.6	12.1	11.0	10.3	BUY
Loan										
Lexinfintech Holdings	LX US	11.7	2,140	1.0	0.8	0.7	7.2	6.3	5.3	NR
Yiren Digital	YRD US	3.9	329	0.6	0.4	0.3	NM	3.4	2.8	NR
FinVolution	FINV US	8.3	2,352	1.8	1.5	1.2	6.5	6.9	6.1	NR
Brokerage & WM										
Futu Holdings	FUTU US	150.1	22,017	10.4	14.4	10.9	68.5	47.0	31.7	NR
Up Fintech Holding	TIGR US	24.2	3,750	22.2	11.4	7.9	231.7	55.5	29.3	NR
East money	300059 CH	31.0	41,196	8.3	7.8	6.7	45.2	48.7	37.8	NR
Tencent Holding	0700 HK	626.5	774,857	6.4	5.8	4.8	38.9	34.7	27.9	BUY
Alibaba Group Holding	BABA US	219.5	595,036	4.3	3.4	2.8	21.3	21.5	17.4	HOLD
Merchant Bank										
China Merchant Bank	03968 HK	70.6	22,800	2.2	2.0	1.8	14.5	13.4	10.0	NR
Ping An Bank	000001 CH	23.9	72,601	1.5	1.4	1.3	16.8	13.8	11.9	NR
Global Peers										
Lending Club	LC US	16.1	1,564	2.2	N/A	N/A	NM	NM	45.1	NR
Square	SQ US	222.0	101,069	43.6	29.2	26.4	450.7	136.7	140.2	NR
PayPal Holdings	PYPL US	259.3	304,572	15.2	12.9	10.2	66.1	54.8	44.4	NR

Source: Lufax, Bloomberg, Blue Lotus (as of Jun. 17, 2021)

Annual Income Statement

Fiscal year ends-31-Dec

Exhibit 20. Annual income statement (Report Currency: RMB)

RMB(mn)	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Total income	40,499	47,835	52,046	63,117	70,521	78,628	84,480	89,900
-Tech platform income	32,221	41,930	41,223	42,557	48,538	54,112	57,713	61,040
-Net interest income	5,894	3,909	7,751	13,373	15,084	16,781	18,262	19,718
-Guarantee income	814	465	602	3,504	4,310	4,856	5,352	5,854
-Other income	508	879	1,516	2,325	1,595	1,777	2,002	2,206
-Investment income	1,017	579	939	1,386	968	1,098	1,151	1,072
-Profit of equity investment	46	73	14	(29)	26	4	0	10
Total Operating Expense	(19,588)	(25,208)	(28,612)	(29,613)	(32,929)	(36,306)	(38,895)	(41,549)
-Sales and marketing	(10,767)	(14,931)	(17,813)	(17,384)	(19,223)	(21,047)	(22,373)	(23,757)
-General and Administrative	(2,796)	(2,853)	(2,975)	(3,172)	(3,473)	(3,794)	(3,992)	(4,158)
-Operation and servicing	(4,367)	(5,471)	(6,032)	(7,155)	(8,144)	(9,175)	(10,112)	(11,061)
-Research and development	(1,659)	(1,952)	(1,792)	(1,901)	(2,089)	(2,290)	(2,418)	(2,573)
Impairment losses	(942)	(1,997)	(3,043)	(7,590)	(8,426)	(10,364)	(11,677)	(12,870)
Finance cost	(900)	(1,520)	(2,865)	(1,348)	(1,348)	(1,348)	(1,348)	(1,348)
Other gain and losses	(420)	325	385	7	239	210	152	201
Pre-tax income	18,649	19,435	17,911	24,573	28,057	30,820	32,713	34,333
Less: Income tax expenses	(5,073)	(6,117)	(5,633)	(7,659)	(8,838)	(9,708)	(10,305)	(10,815)
Net Profit	13,576	13,318	12,278	16,915	19,219	21,112	22,408	23,518
Non-controlling interest	(44)	(15)	(78)	-	-	-	-	-
Net profit att to SH	13,620	13,333	12,356	16,915	19,219	21,112	22,408	23,518

Source: Lufax, Blue Lotus (as of Jun. 17, 2021)

See the last page of the report for important disclosures

Annual Balance Sheet

Fiscal year ends-31-Dec

Exhibit 21. Annual Balance Sheet (Report Currency: RMB)

RMB(mn)	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Cash	18,576	7,352	24,159	32,955	49,957	68,936	89,380	111,772
Restricted cash	7,937	24,603	23,030	23,030	23,030	23,030	23,030	23,030
Financial assets	19,552	27,206	41,688	41,688	41,688	41,688	41,688	41,688
Accounts and other receivables	20,095	26,296	23,326	30,248	33,796	37,681	40,486	43,083
Loans to customers	34,428	47,499	119,826	165,307	188,781	212,684	234,423	256,404
Deferred tax assets	3,160	3,000	3,359	3,359	3,359	3,359	3,359	3,359
Property and plant	623	517	424	382	346	319	303	298
Other assets	13,547	13,060	13,079	13,233	13,418	13,643	13,914	14,286
Total assets	117,919	149,534	248,890	310,200	354,375	401,339	446,581	493,920
Accounts and other payables	48,164	67,413	124,966	165,834	188,653	212,320	233,781	255,199
Borrowings	4,897	2,990	10,315	10,315	10,315	10,315	10,315	10,315
Convertible notes & shares	18,070	20,273	17,648	17,648	17,648	17,648	17,648	17,648
Other liabilities	11,840	10,711	12,809	14,864	17,243	18,860	19,599	21,034
Total liabilities	82,971	101,388	165,739	208,662	233,859	259,143	281,344	304,196
Share capital	0	0	0	0	0	0	0	0
Share premium	14,113	14,113	33,213	33,213	33,213	33,213	33,213	33,213
Treasury shares	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Other reserves	4,579	4,582	7,419	7,419	7,419	7,419	7,419	7,419
(Accumulated losses)/retained earnings	16,237	29,346	40,928	60,906	79,884	101,564	124,606	149,092
Non-controlling interest	19	104	1,591	-	-	-	-	-
Total equity	34,948	48,145	83,151	101,538	120,516	142,196	165,237	189,724
Total Liability and equity	117,919	149,534	248,890	310,200	354,375	401,339	446,581	493,920

Source: Lufax, Blue Lotus (as of Jun. 17,2021)

Annual Cash Flow Statement

Fiscal year ends-31-Mar

Exhibit 22. Annual Cash Flow Statement (Report Currency: RMB)

RMB(mn)	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Profit before tax	18,649	19,435	17,910	24,573	28,057	30,820	32,713	34,333
Depreciation and amortization	951	817	863	751	874	1,021	1,197	1,364
Share of profit of JV	(46)	(73)	(15)	-	-	-	-	-
Impairment loss	440	1,876	2,776	-	-	-	-	-
Others	118	1,501	2,734	1,707	1,088	934	(116)	632
Foreign exchange	126	96	(192)	-	-	-	-	-
(Increase)/Decrease in receivables	61,392	(34,685)	(68,897)	(52,403)	(27,022)	(27,787)	(24,544)	(24,579)
Increase/(Decrease) in payables	(80,094)	17,456	56,167	40,868	22,818	23,667	21,462	21,418
Income tax paid	(2,990)	(4,231)	(4,223)	(7,659)	(8,838)	(9,708)	(10,305)	(10,815)
Cash generated from operating activity	(1,453)	2,193	7,121	7,837	16,976	18,946	20,408	22,353
Gains from sale of PPE	(223)	(173)	(203)	26	27	32	36	40
Gains from sale of investment asset	2,880	(9,922)	(15,999)	-	-	-	-	-
Gains from disposal of subsidiary	78	(1,719)	(40)	-	-	-	-	-
interest received	759	802	1,239	933	-	-	-	-
Cash generated from investing activity	3,494	(11,014)	(15,004)	959	27	32	36	40
Issuance of shares	9,230	678	18,908	(0)	-	-	-	-
Change in borrowing	(9,753)	(2,218)	7,714	-	-	-	-	-
Lease liability	(562)	(573)	(597)	-	-	-	-	-
Interest expense	(924)	(499)	(1,151)	-	-	-	-	-
Cash generated from financing activity	(2,008)	(2,612)	24,874	(0)	-	-	-	-
Effect of exchange rate	(86)	170	(518)	-	-	-	-	-
Net increase in cash and cash equivalents	(52)	(11,263)	16,474	8,796	17,003	18,978	20,444	22,393
Cash at beginning	18,629	18,576	7,352	24,159	32,955	49,957	68,936	89,380
Cash at end	18,576	7,352	24,159	32,955	49,957	68,936	89,380	111,772

Source: Lufax, Blue Lotus (as of Jun. 17, 2021)

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