



Aug. 12, 2021

China/Asia • Target Price Change

Internet & Media • Internet Finance

Lufax Holding Ltd (LU US)

Promising profit amid tightened regulations

- Lufax reported promising 2Q earnings, revenue is inline and net profit beat consensus by 24%. Better operating efficiency and high quality borrowers are main drivers.
- We maintain our previous view that Lufax may bear less regulatory risks as it has close communication with regulators. Recent CBIRC policies over credit information sharing has little impact to Lufax.
- We cut our FY22 revenue and net profit estimate due to potential risk of APR decreasing. We are still positive towards Lufax's ability to maintain its margin, reiterate BUY rating and cut TP to US\$ 15.0.

Stable revenue growth with higher operating efficiency

Lufax reported its 2Q revenue (total income) to increase 17% YoY in 2Q21, in line with consensus and 1% lower than its previous guidance. Net profit reached RMB 4.8bn, beating consensus by 24%. Several reasons contribute to Lufax's top-line inline/bottom-line beat: 1) Lower APR. According to regulation guidance, Lufax has actively lower interest rate of new loans facilitated to 24%. 2) Slightly improved take rate: Lufax managed to leverage its funding cost by increasing funding from consolidated trust plans. 3) Higher efficiency: Total expense only increased 2.2% YoY, and this is mainly due to Lufax's decreased sales commission and higher efficiency from direct sales team.

Lufax is less impacted in the recent regulatory flux

In April, CBIRC has announced that it will prohibit internet platforms from directly sharing users' data with third-party financial institutions, including users' voluntarily submission, and data generated from user behavior. We believe Lufax is nearly unaffected by such policy, as Lufax conducts retail facilitation business through its license guarantee companies and partner banks. This is fully in accordance with Cooperating Guidance of Financial Institutions and Financial Guarantee Companies. Management has also revealed that it would either cooperate with credit scoring agencies or apply for credit scoring license if further regulation requires. In general, we believe that Lufax is less impacted by regulatory risks, as it has been closely communicating with regulators (TBC)

Summary financial data

Highlights	2019A	2020A	2021E	2022E	2023E
Total income (RMB mn)	47,835	52,046	61,712	69,639	77,099
Operating profit (RMB mn)	22,627	23,433	31,013	35,662	39,741
Net profit (RMB mn)	13,333	12,354	17,398	18,513	20,085
EPADS (RMB)	6.1	5.6	6.8	6.9	7.4
P/E	9.7	10.5	7.5	7.0	6.5
P/B	2.7	1.6	1.3	1.1	0.9

Source: Bloomberg, Blue Lotus (as of Aug. 12, 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\$ 15.0

Current Price: US\$ 8.1

RIC: (NYSE: LU)

BBG: LU US

Market cap (US\$ mn)

19,945

Average daily volume (US\$ mn)

84.0

Shares out/float (m)

2,462/N.A.

Source: Bloomberg, Blue Lotus (as of Aug. 12, 2021)

Key Changes

	New	Old	Diff
BLRI Recommendation	BUY	BUY	-
BLRI Target Price	US \$15.0	US \$17.5	(14.0%)
F2021E EPADS (US\$)	1.05	0.99	6.1%
F2022E EPADS (US\$)	1.05	1.09	(3.7%)
F2023E EPADS (US\$)	1.14	1.17	(2.6%)

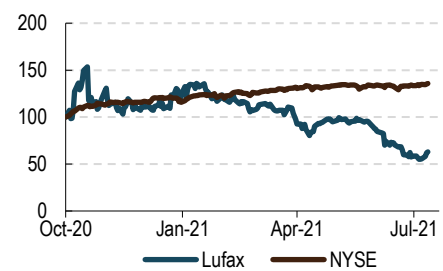
Source: Blue Lotus (as of Aug. 12, 2021)

BLRI vs. The Street

No. of Bloomberg Recommendations	15
Target price vs. Bloomberg mean	(2.9%)
1-year-fwd EPS vs. Bloomberg mean	13.2%
Bloomberg recommendation	4.30

Source: Bloomberg Recommendation (1=SELL,5=BUY) (as of Aug. 12, 2021)

Price performance and volume data



Source: Bloomberg, Blue Lotus (as of Aug. 12, 2021)

Research team



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Lufax Holding Ltd: Financial Summary

Fiscal year ends-31-Dec

Exhibit 4. Income statement

(RMB mn)	2020A	2021E	2022E
Total income	52,046	61,712	69,639
-Tech platform income	41,222	40,253	45,397
-Net interest income	7,750	13,315	15,018
-guarantee income	602	4,113	5,059
-other income	1,517	3,029	3,291
-investment income	940	1,028	849
- profit of equity investment	15	(26)	27
Total Operating Expense	(28,612)	(30,699)	(33,977)
-S&M expenses	(17,814)	(18,511)	(20,279)
-G&A expenses	(2,976)	(3,269)	(3,549)
-Operation & servicing expenses	(6,031)	(6,824)	(7,854)
-R&D expenses	(1,792)	(2,095)	(2,295)
Impairment losses	(3,042)	(6,900)	(7,827)
Finance cost	(2,866)	(1,183)	(1,183)
Other gain and losses	384	410	373
Pre-tax income	17,910	23,340	27,026
Less: Income tax expenses	(5,633)	(5,942)	(8,513)
Net Profit	12,276	17,398	18,513
Net profit att to SH	12,354	17,398	18,513

Source: Lufax, Blue Lotus (as of Aug. 12, 2021)

Exhibit 5. Balance sheet

(RMB mn)	2020A	2021E	2022E
Cash	24,159	34,463	50,841
Restricted cash	23,030	23,030	23,030
Financial assets	41,688	41,688	41,688
Accounts and other receivables	23,326	29,575	33,374
Loans to customers	119,826	165,307	188,781
Deferred tax assets	3,359	3,359	3,359
PP&E	424	382	346
Other assets	13,079	13,233	13,418
Total assets	248,890	311,036	354,837
Accounts and other payables	124,966	165,758	188,718
Borrowings	10,315	10,315	10,315
Convertible notes & shares	17,648	17,648	17,648
Other liabilities	12,809	13,968	17,604
Total liabilities	165,739	207,689	234,286
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	62,714	79,919
Non-controlling interest	1,591	-	-
Total equity	83,151	103,346	120,551
Total Liability and equity	248,890	311,036	354,837

Source: Lufax, Blue Lotus (as of Aug. 12, 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, implying online penetration of 14%.

Exhibit 6. Cash flow statement

(RMB mn)	2020A	2021E	2022E
Profit before tax	17,910	23,340	27,026
D&A	863	751	874
Share of profit of JV	(15)	-	-
Impairment loss	2,776	-	-
Others	2,734	2,135	1,278
Foreign exchange	(192)	-	-
(Increase)/Decrease in receivables	(68,897)	(51,730)	(27,273)
Increase/(Decrease) in payables	56,167	40,792	22,960
Income tax paid	(4,223)	(5,942)	(8,513)
Cash generated from operating activity	7,121	9,346	16,351
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	10,305	16,378
Cash at beginning	7,352	24,159	34,463
Cash at end	24,159	34,463	50,841

Source: Lufax, Blue Lotus (as of Aug. 12, 2021)

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Lufax is less impacted by recent regulations

- **(Continued):** to better comply with according policies and spirit, and its key business, retail loans facilitation for SMEs, is largely supported by the central government.
- **Reiterate BUY rating and cut TP to US\$ 15:** There exists downside risk for Lufax APR, as regulators continue to focus on APR of operating loans to protect SMEs. However, we believe that such impact to Lufax's profitability is little, as Lufax may leverage funding cost from partners or lower CGI cost by improving quality of borrowers. We cut APR estimate from previous 24% to 20%, and adjust our FY22 revenue/net profit estimate down by 4%/3%. We cut our TP to US\$ 15.0, implying FY2022 PE/PB of 13.0X/2.0X.

Exhibit 4. Lufax C2Q21 review table

(RMB mn)	2Q21A	2Q21E	2Q21C	Diff vs E	Diff vs C	1Q21A	QoQ	2Q20A	YoY	3Q21Ne w	3Q21 Old
Total income	14,828	14,882	14,758	(0.4%)	0.5%	15,251	(2.8%)	12,638	17.3%	15,613	16,529
-Tech platform income	9,601	10,286		(6.7%)		10,290	(6.7%)	10,375	(7.5%)	9,821	10,855
-Net interest income	3,227	3,285		(1.8%)		2,911	10.9%	1,624	98.7%	3,917	3,917
-guarantee income	891	655		36.0%		551	61.5%	92	868.0%	1,177	1,012
-other income	1,071	369		190.2%		1,039	3.1%	351	205.1%	444	441
-investment income	37	286		(87.1%)		490	(92.5%)	220	(83.3%)	248	298
Total expense	(8,502)	(9,162)		(7.2%)		(8,108)	4.9%	(7,825)	8.7%	(9,933)	(9,495)
-Sales and marketing expenses	(4,316)	(4,087)		5.6%		(4,233)	2.0%	(4,606)	(6.3%)	(4,915)	(4,543)
-General and administrative expenses	(798)	(731)		9.1%		(854)	(6.6%)	(659)	21.0%	(766)	(762)
-Operation and servicing expenses	(1,476)	(1,808)		(18.3%)		(1,521)	(2.9%)	(1,527)	(3.3%)	(1,897)	(1,897)
-Technology and analytics expenses	(517)	(439)		17.7%		(447)	15.7%	(436)	18.5%	(576)	(527)
-Credit impairment loss	(1,394)	(2,098)		(33.6%)		(1,053)	32.3%	(597)	133.4%	(1,779)	(1,767)
-Asset impairment loss	(2)	-		NM		-	NM	-	NM	-	-
Operating profit	6,326	5,719		10.6%		7,143	(11.4%)	4,813	31.4%	5,681	7,034
Operating margin	42.7%	38.4%	N/A	11.1%	N/A	46.8%	(4.2ppt)	38.1%	4.6ppt	36.4%	42.6%
Other Gains(Loss)	25	(397)		NM		(704)	NM	(56)	NM	76	(236)
Operating profit	6,351	5,322	5,150	19.3%	23.3%	6,439	(1.4%)	4,757	33.5%	5,757	6,799
Income tax expense	(1,623)	(1,331)		21.9%		(1,752)	(7.4%)	(1,260)	28.8%	(1,377)	(2,749)
Net profit	4,729	3,992		18.5%		4,969	(4.8%)	3,087	53.2%	4,132	4,050
Net profit attributable to SH	4,774	3,992	3,841	19.6%	24.3%	4,995	(4.4%)	3,087	54.6%	4,132	4,050
Net Margin	32.2%	26.8%	26.0%	5.4ppt	6.2ppt	32.8%	(0.6ppt)	24.4%	7.8ppt	26.5%	24.5%

Source: Lufax, Blue Lotus (as of Aug. 12, 2021)

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