

China Financials

China FinTech Credit: slower growth with divergent performance

Industry Overview

Consumer lending: slower growth amid macro headwinds

China's consumption loans grew 17% YoY to RMB10.7tn in 9M23 partly due to a low base. However, the consumption loan growth could slow down in 2024, in our view, given the macro headwinds and job/income uncertainty. Some FinTech lenders have tightened risk control and slowed down loan growth amid rising credit risk since 2H23 and guided conservative loan growth in 2024. FinTech lenders mainly serve the long-tail borrowers. Those backed by big internet platforms with strong user traffic tend to have smaller loan ticket size and lower loan pricing. The competitive landscape in this segment is continuously evolving. Ant (backed by BABA) and WeBank (backed by Tencent) are the pioneers and leaders. ByteDance, with massive and loyal user base, grew its FinTech lending business rapidly in the past two years. Tencent is also developing its own consumer credit products. Some incumbents are growing slower. Independent FinTech lenders tend to have relatively larger loan ticket size and higher loan pricing. We continue to like QFIN for its leading position in this niche market (that giants generally don't enter due to brand positioning), good track record and high capital return.

SME lending: 2024 could remain challenging

FinTech SME lending could remain challenged in 2024, especially for the high-pricing long-maturity ones. Lufax used to be the second largest player in this segment and had higher-pricing and longer-maturity vs peers. It is still undergoing painful de-risking and business transition, without quick turnaround in sight. It is also pivoting to do more consumer lending given the challenges to SME loans. MYBank, the largest player in this segment, witnessed 42% YoY profit drop in 3Q23 as provision jumped 84% YoY. Its NPL ratio rose ~40bp YoY to 1.94% while its NPL coverage ratio declined >100% YoY to 257% in 2022, both weaker than peer average. Its credit cost increased from 3.1%/2.7% in 1Q/2Q23 to 4.6% in 3Q23, and it transferred out RMB6.14bn NPLs (~2.5% of its loans) at more than 90% discount in 2023.

Depressed valuation, yields matter, wait for catalyst

FinTech lenders' valuation has de-rated in the past three years to depressed levels, with reduced loan pricing, stricter capital requirements, higher compliance costs and macro headwinds. Investors now pay more attention to the capital return yield (i.e., dividend + buyback). QFIN's total yield is high at 13-14%. Lufax's potential special dividend is a key thing to watch. Some investors with whom we've spoken view Ant's IPO as a catalyst for sector re-rating. Ant's valuation has declined to ~16x TTM P/E, but still much higher than major players' 12month forward P/E at 1.5-3.5x. Ant has made steady progress in rectification, and PBOC recently voiced support to help Ant-backed Qiantang Credit obtain the personal credit scoring license. Due to the change of actual controller, Ant needs to wait until 2025-26 to go to listing, if it finishes all the rectification requirements by then.

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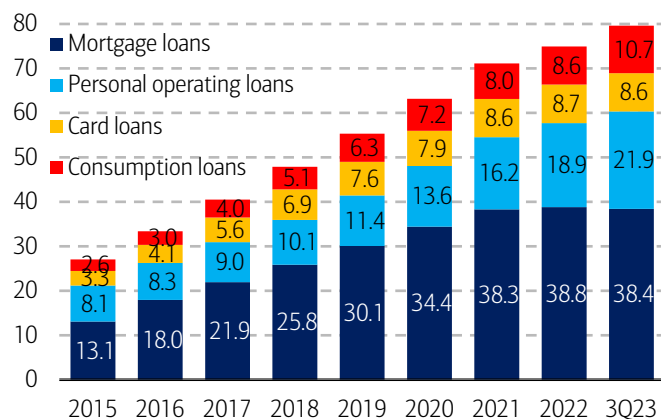
Consumer lending: slower growth amid macro headwinds

China's consumption loans increased from RMB3.0tn in 4Q16 to RMB8.6tn in 4Q22 and to RMB10.7tn in 3Q23. Its percentage in household loans increased from 9.1% in 4Q16 to 11.4% in 4Q22 and to 13.4% in 3Q23. Its YoY growth decelerated from 20-35% in 2017-19 to 10-15% in 2020-21 and to <6% in 2Q22 amid COVID disruption but recovered to 17% in 3Q23 post reopening.

However, the consumption loan growth could slow down in 2024, in our view, given the macro headwinds and job/income uncertainty. Some FinTech lenders have tightened risk control and slowed down loan growth amid rising credit risk since 2H23 and guided conservative loan growth in 2024.

Exhibit 1: China's household loan size and breakdown (RMB tn)

Consumption loans' mix is increasing

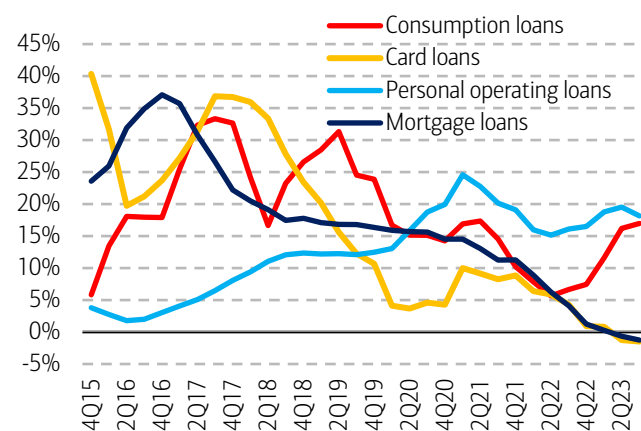


Source: PBOC, *2023 data is not comparable to previous ones as PBOC started to include loans of consumer finance companies, wealth management companies and financial asset investment companies from 2023, which amounted to RMB835bn/RMB841bn by Dec-2022/Jan-2023

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Exhibit 2: China's household loan growth by loan type

Consumption loan YoY growth picked up to 17% in 9M23



Source: PBOC, *PBOC started to include loans of consumer finance companies, wealth management companies and financial asset investment companies from 2023, we adjusted the impact when calculating YoY growth in 2023

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Consumption loan providers mainly include banks (including traditional banks, and internet and privately owned banks), consumer finance companies, and FinTech lenders (backed by big internet platforms or independent ones).

Exhibit 3: Comparison of different consumer finance providers

Consumption loan providers mainly include banks, consumer finance companies and FinTech lenders

Typical profile	Traditional banks (Consumption loans)	Traditional banks (Credit card loans)	Internet banks	Consumer finance companies (CFCs)	FinTech lenders backed by big internet platforms	Independent FinTech lenders
Target borrowers	Mid-and-high income groups with stable jobs	Diversified	Low-and-mid income groups	Low-and-mid income groups, wide range	Low-and-mid income groups, usually based on consumption scenarios	Low-and-mid income groups
Loan ticket size	RMB50-300k	RMB5-30k	RMB5-10k	RMB5-200k	RMB3-10k	RMB10-20k
Loan pricing (IRR)	3.5-9%	12.775-18.25%, limit cancelled now	9-18%	12-24%	9-18%	18-24%
Loan tenor	Diversified, 6mth-5yrs	Majority paid within interest-free period	Revolving, 3-20mths	12-36mths	3-12mths, some have interest-free period	8-12mths
Example(s)	CMB, PAB	CCB, CMB	WeBank	Merchants Union CFC, Industrial CFC	Ant, JD, ByteDance	QFIN, FINV, LX

Source: BofA Global Research, company reports, company websites, various media

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Traditional banks' consumption loans target the best-quality consumer borrowers with the largest loan ticket size, the lowest loan pricing, and the longest loan tenor, in general. Card loans' borrowers are diversified, but most of the high-quality ones tend to repay within the interest-free period, while those borrowing card loans tend to have

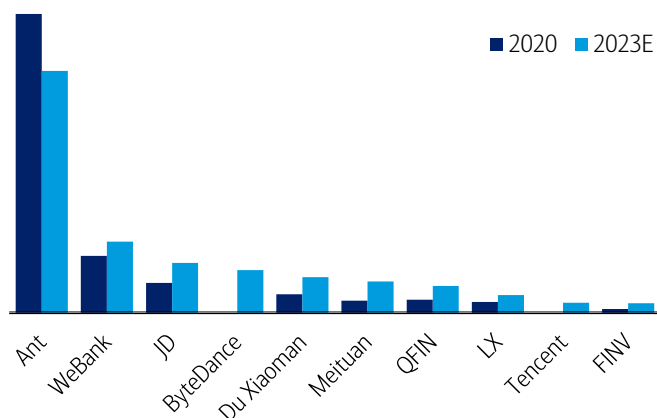
lower quality. Card loans used to have an upper and lower limit for daily interest rate at 3.5-5bp (or annualized interest rate of 12.775-18.25%) but were abolished at the beginning of 2021. Consumer finance companies mainly target low-and-mid income groups with longer loan tenors, while the loan ticket size (RMB5-200k) and pricing (12-24%) can be quite diversified.

FinTech lenders and internet banks mainly serve the long-tail borrowers. Those backed by big internet platforms with strong user traffic tend to have smaller loan ticket size (RMB3-10k) and lower loan pricing (9-18%). Ant (backed by BABA) and WeBank (backed by Tencent) are the pioneers and leaders, while second-tier players like JD/Du Xiaoman/Meituan have also grown their FinTech credit business. ByteDance, with massive and loyal user base, grew its FinTech lending business rapidly in the past two years. It acquired Shenzhen Zhongrong OMCC in Oct-2021 with RMB5bn registered capital, boosted the registered capital to RMB9bn in Apr-2022, and further to RMB19bn in Dec-2023, becoming the largest OMCC in China. Its eCommerce GMV (~RMB2.4tn) was ~1/3 of BABA's in 2023E and the ratio is expected to increase to 40-50% in 2024-25E, according to our internet analysts, while ByteDance's loan under management (LUM) is <20% of Ant's currently. Tencent is also developing its own consumer credit products, called Weixin Fenfu (微信支付, revolving credit without interest-free period, since 1Q20) and Wexin Fenqi (微信分期, consumer installment loans, since 3Q23), via its Caifutong OMCC. Tencent has raised Caifutong OMCC's registered capital for multiple times since 2020 to RMB10.5bn by Jan-2023. PDD and Kuaishou also have large user base and eCommerce GMVs, though they haven't taken many actions in the FinTech lending space so far.

Independent FinTech lenders, like QFIN/FINV/LX, tend to have relatively larger loan ticket size (RMB10-20k) and higher loan pricing (18-24%). While the competitive landscape in the 9-18% pricing segment is continuously evolving, it is more stable in the 18-24% pricing segment. We continue to like QFIN for its leading position in this niche market (that internet giants generally don't enter due to brand positioning), good track record and high capital return (also see our recent [QFIN management call takeaways](#) report). We maintain our Buy rating on QFIN.

Exhibit 4: Illustrative chart of major FinTech lenders' consumer LUM

Trends of consumer loan under management (LUM) diverged across different players during 2020-2023

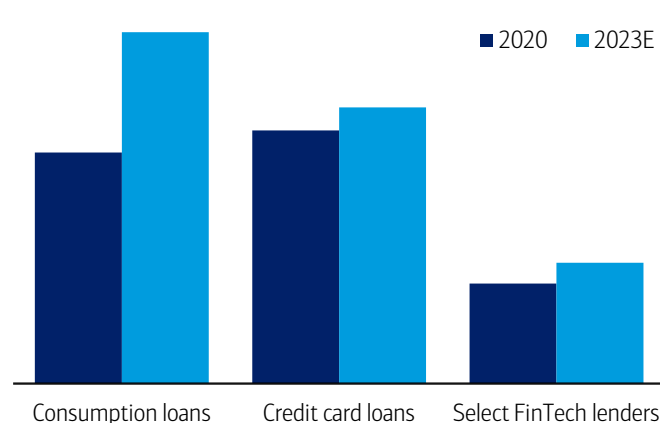


Source: company reports, various news, BofA Global Research estimates

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Exhibit 5: Illustrative chart of major FinTech lenders' consumer LUM

Select FinTech lender's consumer LUM growth probably lagged sector consumption loan growth during 2020-2023



Source: PBOC, company reports, various news, BofA Global Research estimates, *Select FinTech lenders are those shown in the left-hand side chart

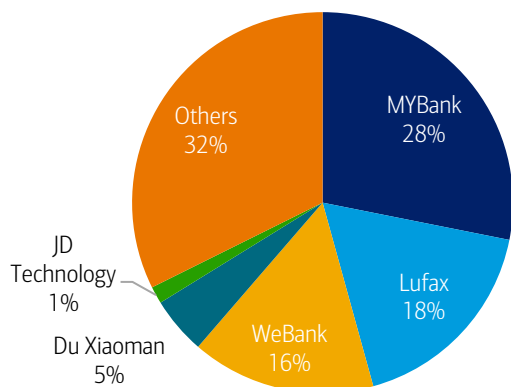
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SME lending: more challenged, esp. long-maturity ones

Lufax used to be the second largest non-traditional SME loan provider. However, its loan size peaked in 1Q22 and continuously declined since then, due to de-risking and business transition. Its credit risk metrics deteriorated significantly since 2022, while revenue and net profit slumped. Its 2023E loan size, revenue and net profit were only 47%/55%/9% of the peak level in 2021. See more in our Lufax report: [The turnaround may take longer than expected](#). Given the challenges to SME loans, Lufax is pivoting to do more consumer lending. Consumer finance loans already accounted for ~40% of the new loans in 3Q23 or ~10% of the total loans outstanding by 3Q23. They could continue to contribute a large portion of the new loans at Lufax in the next few quarters and their percentage in total loans outstanding will likely continue rising. We maintain our Neutral rating on Lufax.

Exhibit 6: Non-traditional SME loan providers in China (1H22)

Lufax used to be the second largest non-traditional SME loan provider

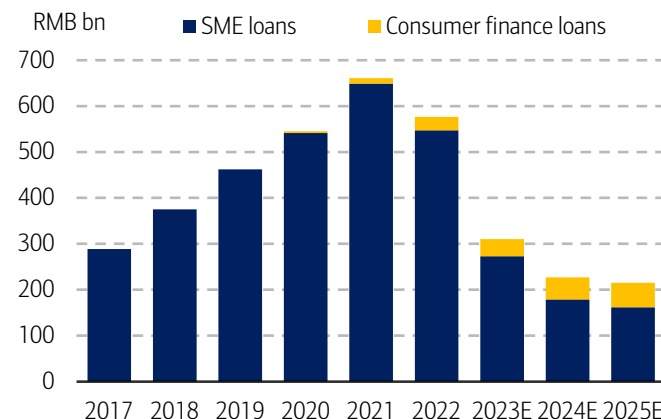


Source: Lufax HK listing prospectus

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Exhibit 7: Lufax: loan balance

Lufax's loan size declined sharply in 2023

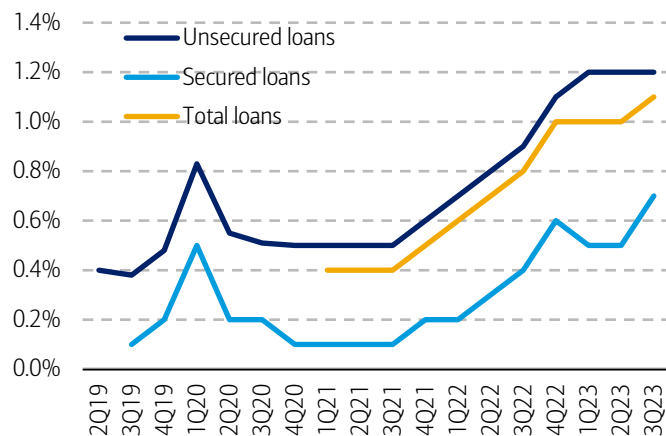


Source: company reports, BofA Global Research estimates

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Exhibit 8: Lufax: flow rate, a leading risk indicator

Total loans' flow rate rose to 1.1% in 3Q23

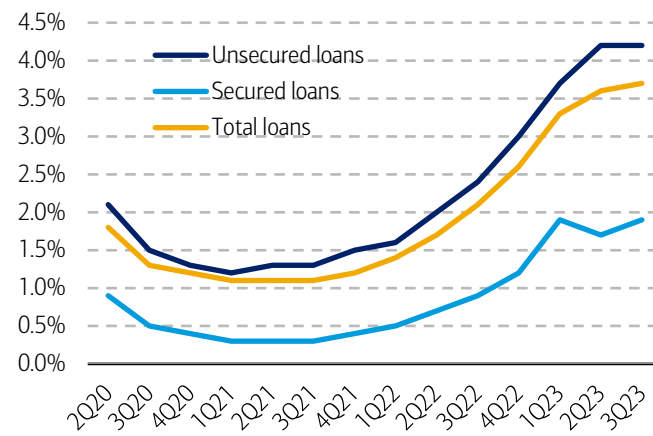


Source: company reports

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Exhibit 9: Lufax: 90day+ delinquency rate

Total loans' 90day+ delinquency rate rose to 3.7% in 3Q23

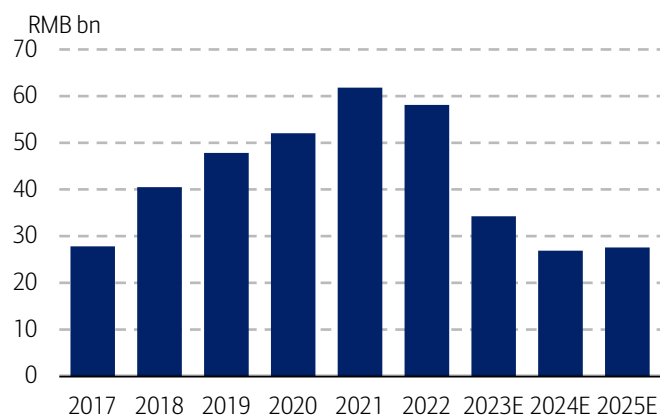


Source: company reports

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Exhibit 10: Lufax: revenue

Lufax's revenue dropped in 2023

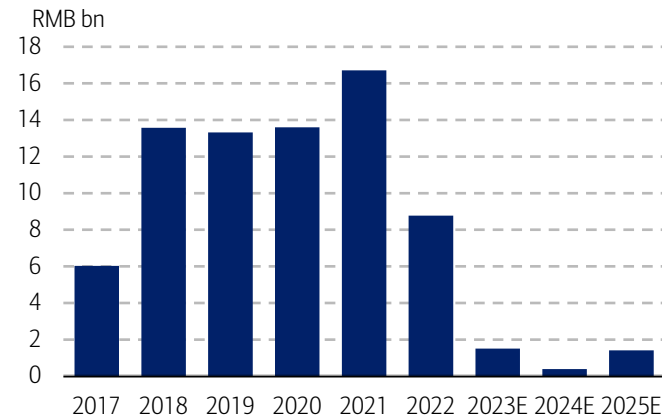


Source: company reports, BofA Global Research estimates

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Exhibit 11: Lufax: net profit

Lufax's net profit slumped in 2023



Source: company reports, BofA Global Research estimates

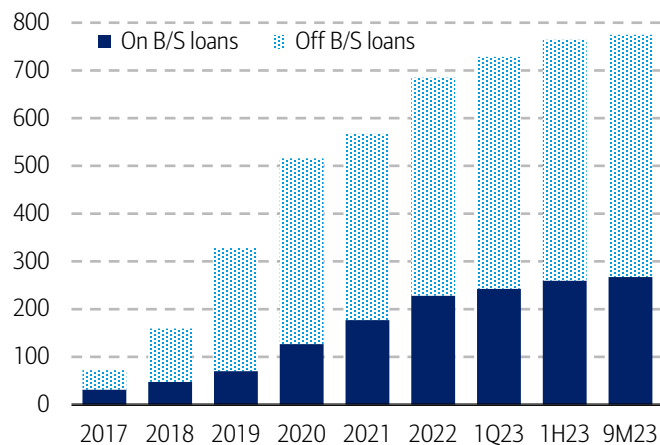
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The challenges to SME lending are not unique to Lufax, though it could likely suffer more given its longer loan maturity (24-36mth), larger loan ticket size (~RMB300k on average) and higher loan pricing (>18%) compared to other peers (e.g., MYBank's loan maturity is mostly ≤3mth, loan ticket size is ~RMB50k on average and loan pricing is c.10-18%).

MyBank is the largest non-traditional SME loan provider. Its on B/S loan YoY growth decelerated from 29%/28% in FY22/1H23 to 18% in 9M23. Its revenue YoY growth rebounded from 13% in FY22 to 20% in 9M23, but its net profit YoY growth decelerated sharply from 69%/28% in FY22/1H23 to 0% in 9M23. Its net profit dropped 42% YoY in 3Q23 as provision jumped 84% YoY, and its credit cost increased from 3.1%/2.7% in 1Q/2Q23 to 4.6% in 3Q23.

Exhibit 12: MYBank: loans under management on and off B/S

We estimate LUM to rise to nearly RMB0.8tn by 1H23

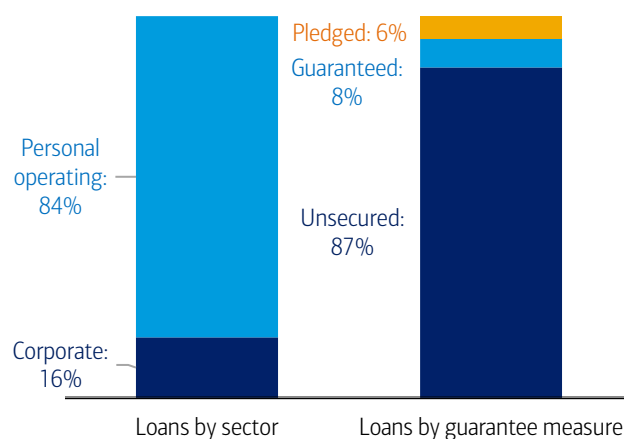


Source: company reports, dotted bars are BofA Global Research estimates

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Exhibit 13: MYBank: on B/S loan mix (2022)

All loans were personal operating loans or corporate loans.

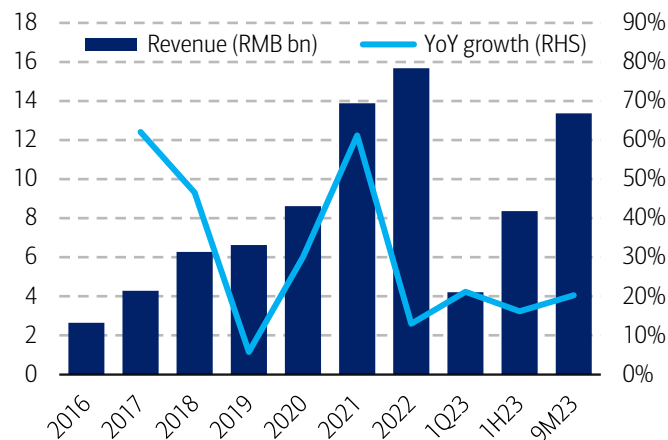


Source: company reports

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Exhibit 14: MYBank: revenue and YoY growth

Revenue growth accelerated from 13% in FY22 to 20% YoY in 9M23

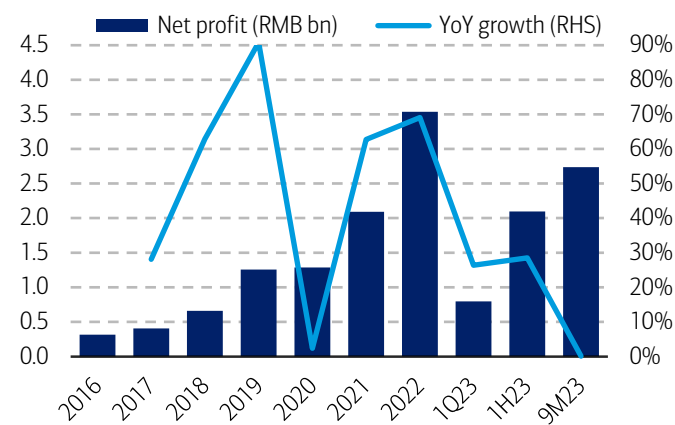


Source: company reports

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Exhibit 15: MYBank: net profit and YoY growth

Profit growth decelerated sharply from 28% YoY in 1H23 to 0% in 9M23



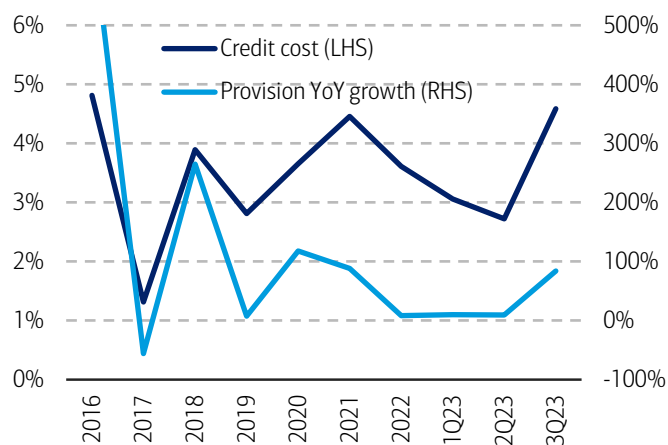
Source: company reports

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MYBank's NPL ratio rose ~40bp YoY to 1.94%, while NPL coverage ratio declined >100% YoY to 257% in 2022. It hasn't disclosed the NPL ratio and NPL coverage ratio by 9M23 yet, but the significant increase of provisions in 3Q/9M23 and zero profit growth in 9M23 probably signal some asset quality pressure and limited room to cut provisions to boost profit. Meanwhile, MYBank sold RMB6.14bn NPLs (~2.5% of its average loans in 2023) at a price of RMB589mn in 2023, also reflecting its pressure to dispose NPLs.

Exhibit 16: MYBank: credit cost and provision YoY growth

Provision increased 84% YoY and credit cost rose to 4.6% in 3Q23

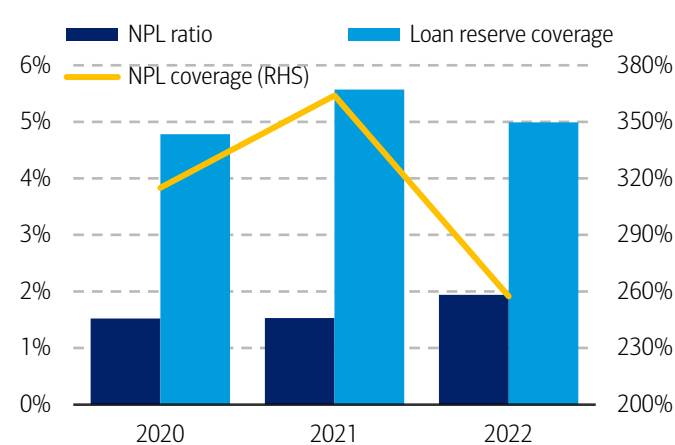


Source: company reports

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Exhibit 17: MYBank: NPL ratio and provision coverage

NPL ratio rose to 1.94% while NPL coverage ratio dropped to 257% in 2022



Source: company reports

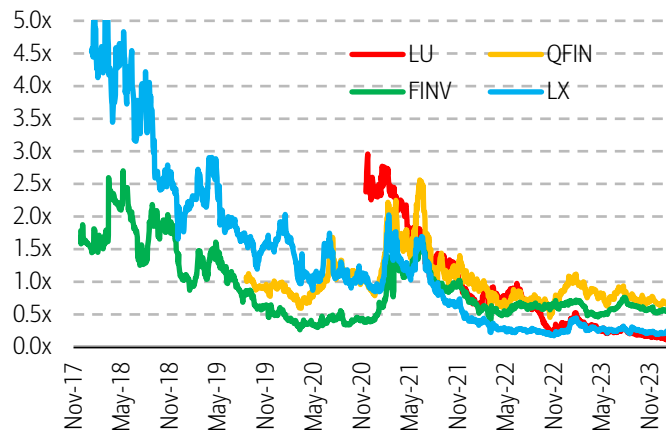
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Depressed valuation, yields matter, wait for catalyst

FinTech lenders' valuation has de-rated in the past three years to depressed levels, with reduced loan pricing, stricter capital requirements, higher compliance costs and macro headwinds. Investors now pay more attention to the capital return yield (i.e., dividend + buyback). QFIN's current capital return (dividend + buyback) is ~55% of its 2023E profit, implying a very attractive yield of 13-14%. We think Lufax's potential special dividend is a key thing to watch.

Exhibit 18: FinTech lenders' 12mth forward P/B

FinTech lenders' P/B is at historically low level

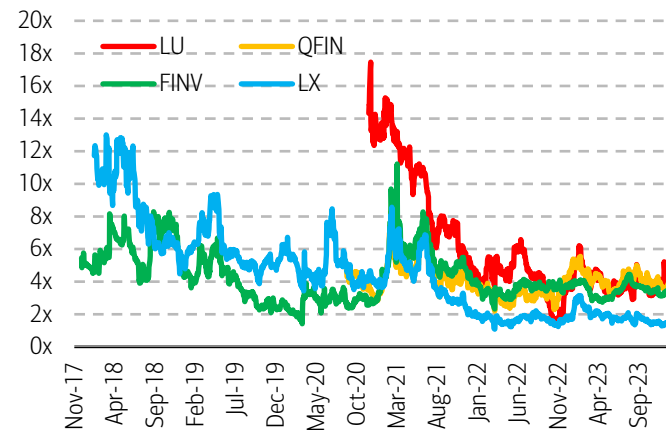


Source: Bloomberg

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Exhibit 19: FinTech lenders' 12mth forward P/E

FinTech lenders' P/E is at historically low level



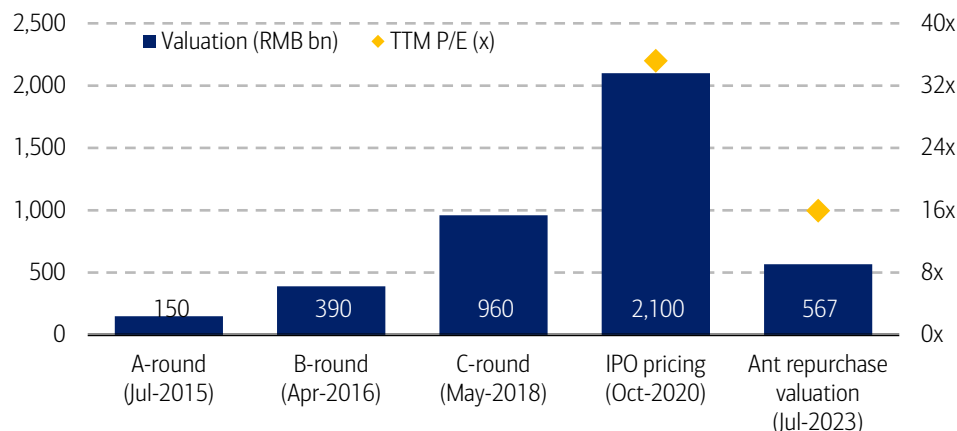
Source: Bloomberg

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Some investors view Ant's IPO as a potential re-rating opportunity for the sector. Ant's IPO was suspended in Nov-2020 due to regulatory guidance. It was valued at RMB2.1tn in the IPO pricing stage in Oct 2020, implying ~35x Trailing Twelve Month (TTM) P/E. When Ant repurchased its shares in Jul-2023, the valuation shrank to RMB567bn, implying ~16x TTM P/E, but still much higher than major players' 12mth forward P/E at 1.5-3.5x.

Exhibit 20: Ant's valuation

Ant repurchased its shares at a valuation of RMB567bn in Jul-2023, implying ~16x trailing 12mth P/E



Source: company reports, company website, TTM=Trailing Twelve Month

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With a change of the actual controller, an issuer needs to wait for 3 years, 2 years and 1 year, respectively, to list in A-share main board, A-share science and technology innovation (STI) board and HKEX, according to regulatory requirements. As Ant changed to a firm without an actual controller in 2023, it would need to wait until 2025 to list in HKEX alone or 2026 to list in STI board and HKEX simultaneously, if it finishes all the rectification requirements by then.

Exhibit 21: China FinTech/Bank valuation comp

FinTech lenders' valuation has de-rated

	Bloomberg Ticker	BofA Rating	Price (USD; HKD)	Mkt cap (USD mn)	P/E		P/B		Dividend Yield		ROE		ROA	
					2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E	2023E	2024E
China FinTech														
Lufax	LU US	NEUTRAL	2.46	1,410	7.2x	40.6x	0.10x	0.11x	14.1%	14.6%	1.4%	0.3%	0.5%	0.1%
Qifu Technology	QFIN US	BUY	15.09	2,437	4.0x	3.5x	0.77x	0.67x	7.3%	8.6%	21.1%	20.7%	10.0%	10.1%
FinVolution	FINV US	NA	4.78	1,339	3.9x	3.4x	0.67x	0.56x	4.7%	5.2%	18.2%	17.9%	11.1%	11.1%
Lexin	LX US	NA	2.07	337	2.0x	1.7x	0.29x	0.24x	7.0%	8.3%	15.3%	16.1%	4.5%	5.0%
Sector total/average				5,523	4.7x	12.8x	0.55x	0.47x	8.4%	9.3%	15.0%	14.5%	7.5%	7.5%
China Banks														
ABC	1288 HK	BUY	3.04	181,136	3.9x	3.9x	0.41x	0.38x	8.2%	8.2%	10.8%	10.0%	0.7%	0.6%
BOC	3988 HK	BUY	2.99	153,964	3.7x	3.7x	0.37x	0.34x	8.5%	8.5%	10.1%	9.5%	0.7%	0.6%
CCB	939 HK	BUY	4.66	152,266	3.3x	3.4x	0.36x	0.34x	9.1%	9.1%	11.3%	10.4%	0.9%	0.8%
ICBC	1398 HK	BUY	3.83	230,897	3.6x	3.6x	0.37x	0.35x	8.7%	8.7%	10.6%	9.9%	0.8%	0.7%
BoComm	3328 HK	BUY	4.68	53,255	3.7x	3.7x	0.35x	0.33x	8.8%	8.8%	9.8%	9.2%	0.6%	0.6%
PSBC	1658 HK	NEUTRAL	3.79	60,833	4.1x	4.3x	0.44x	0.41x	7.7%	7.6%	11.0%	9.9%	0.5%	0.5%
CEB	6818 HK	UNDERPERFORM	2.33	23,647	3.0x	3.1x	0.29x	0.27x	9.0%	9.1%	9.7%	9.1%	0.6%	0.6%
CMB	3968 HK	BUY	28.85	105,838	4.8x	4.5x	0.73x	0.65x	6.9%	7.3%	16.1%	15.1%	1.3%	1.3%
CNCB	998 HK	BUY	3.84	35,593	2.8x	2.7x	0.29x	0.27x	10.1%	10.6%	10.8%	10.5%	0.7%	0.7%
MSB	1988 HK	UNDERPERFORM	2.64	21,998	3.3x	3.1x	0.20x	0.19x	9.2%	9.6%	6.3%	6.2%	0.4%	0.4%
CQRB	3618 HK	BUY	3.03	6,191	3.0x	2.9x	0.27x	0.26x	10.2%	10.4%	9.5%	9.0%	0.8%	0.7%
Sector total/average				1,025,620	3.7x	3.7x	0.41x	0.38x	8.5%	8.5%	11.1%	10.4%	0.8%	0.7%

Source: BofA Global Research estimates, as of Jan 25, Bloomberg consensus for FINV/LX

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Appendix 1: leading FinTech consumer lenders

Ant – the largest consumer FinTech lender

Exhibit 22: Ant's consumer credit business

Ant has segregated its consumer credit products by funding source

Nature	Funding source	Current regulatory requirements	Loan type	Before rectification	After rectification
Self-operated, Co-lending	Fully or partially funded by Ant	OMCC: 6x leverage (legacy), CFC: 10x leverage, ≥30% fund contribution for every co-lending	Unsecured revolving credit with interest-free period	Huabei	Huabei
			Short-term unsecured loans	Jiebei	Jiebei
Loan facilitation	Fully funded by third-party financial institutions	No capital requirement, but need to pass data to financial institutions via credit scoring companies	Unsecured revolving credit with interest-free period	Huabei	Credit Purchase
			Short-term unsecured loans	Jiebei	Credit Loan

Source: BofA Global Research

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Exhibit 23: Ant CFC's shareholder and registered capital

Ant has migrated its Huabei/Jiebei business to CFC and had increased its CFC's registered capital twice since establishment

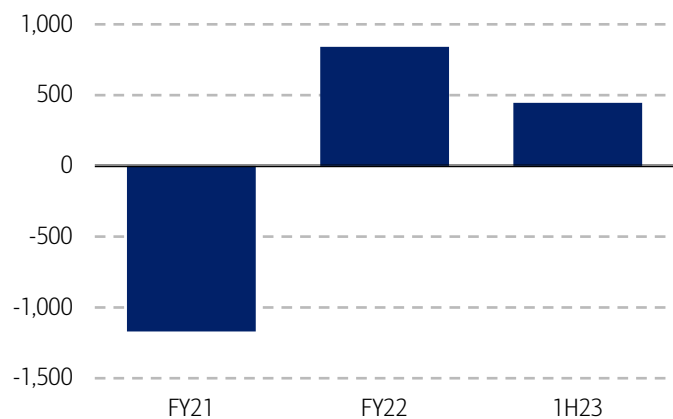
Shareholder	Shareholder (Chinese name)	Shareholder nature	Jun-2021 initial capital		Dec-2021 capital increase plan (Not implemented)		Post Dec-2022 capital increase approval		Post Oct-2023 capital increase approval	
			Contribution (RMB mn)	% stake	Contribution (RMB mn)	% stake	Contribution (RMB mn)	% stake	Contribution (RMB mn)	% stake
Ant Group	蚂蚁集团	POE (Zhejiang)	4,000	50.00%	15,000	50.00%	9,250	50.00%	11,500	50.00%
HFI Digital Technology	杭金数科	SOE (Hangzhou)					1,850	10.00%	2,300	10.00%
Sunny Optical	舜宇光学	POE (Zhejiang)			1,800	6.00%	1,110	6.00%	1,380	6.00%
Nanyang Commercial Bank	南洋商业银行	HK bank (owned by Cinda)	1,201	15.01%	1,201	4.00%	1,201	6.49%	1,201	5.22%
Transfar	传化智联	POE (Zhejiang)					927	5.01%	1,152	5.01%
Yuwell	鱼跃医疗	POE (Jiangsu)	399	4.99%	1,497	4.99%	923	4.99%	1,148	4.99%
Yufu Huamao	渝富华贸	SOE (Chongqing)							930	4.04%
Cathay United Bank	国泰世华银行	Foreign bank	800	10.00%	800	2.67%	800	4.32%	800	3.48%
Boguan Technology	博冠科技	POE (owned by NetEase)			1,322	4.41%	619	3.34%	769	3.34%
CATL	宁德时代	POE (Fujian)	640	8.00%	640	2.13%	640	3.46%	640	2.78%
Transinfo	北京千方科技	POE (Beijing)	561	7.01%	561	1.87%	561	3.03%	561	2.44%
China Huarong	中国华融	SOE (Central)	399	4.99%	399	1.33%	399	2.16%	399	1.74%
Nongxin Group	农信集团	SOE (Chongqing)					220	1.19%	220	0.96%
China Cinda	中国信达	SOE (Central)			6,000	20.00%				
Yufu Capital	渝富资本	SOE (Chongqing)			780	2.60%				
Registered Capital			8,000	100.00%	30,000	100.00%	18,500	100.00%	23,000	100.00%

Source: NFRA, SOE=State-owned Enterprise, POE=Privately-owned Enterprise

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Exhibit 24: Ant CFC's net profit (RMB mn)

Ant CFC's net profit declined 4.4% YoY to RMB445mn in 1H23

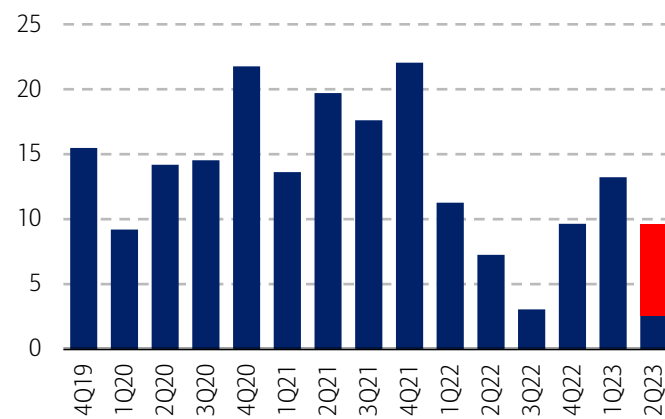


Source: company reports

BofA GLOBAL RESEARCH

Exhibit 25: Ant's quarterly net profit (RMB bn)

Ant's net profit rebounded 23% YoY in 1H23, if excluding the fine in 2Q23



Source: company reports, red bar is the RMB7.07bn fine imposed on Ant by China regulators

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WeBank – the second largest consumer FinTech lender

Exhibit 26: WeBank's loan products

WeBank offers both consumer and corporate finance products

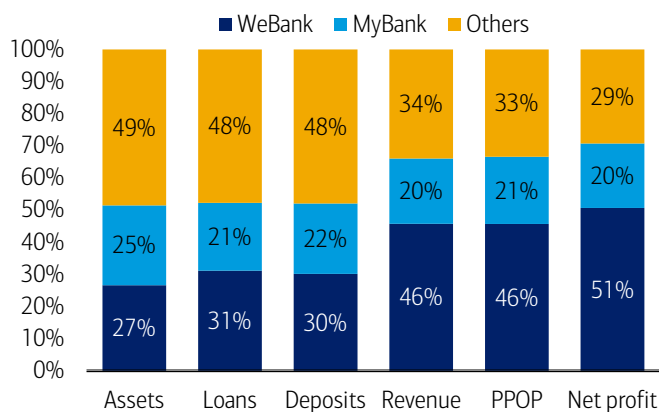
	Description	Credit line	Loan ticket size	Interests	Duration	Coverage	Customer profile
Consumer finance							
Weilidai (微粒贷)	An online-only small-ticket revolving loan product provided through WeChat, Mobile QQ and other apps	Up to RMB200k, unsecured	~RMB7.6k on average	~70% of customers' single loan cost was <RMB100	Can repay at any time from the next day after borrowing	>60mn borrowers cumulatively by 2022, and originated >900k loans daily in 2022	~46% were from third-tier cities and below, >81% were not white-collar employees, ~85% had no university degrees, ~17% had no credit record with the PBOC, as of end 2022
Weihudai (微户贷)	An online personal business loan product offered to SME customers of "Weilidai" for business activities	Up to RMB500k, unsecured		~78% of customers' single loan cost was <RMB200	Can repay at any time from the next day after borrowing; average at 39 days	>300k borrowers cumulatively by 2022, and originated >14k loans daily in 2022	~27%/~37% were "SME customers applying for loans/credit loans for the first time" without business loan records in the PBOC, >70% came from basic livelihood industries such as wholesale & retail, manufacturing, hotel, and catering, as of end 2022
Weichedai (微车贷)	A digital auto loan product for car buyers with online application, quick approval and signing with face recognition						
Corporate finance							
Weiyedai (微业贷)	The first online-only, unsecured, revolving credit bank loan product for SME corporate liquidity	~RMB990k on average, ~98% are unsecured	~RMB200k on average	>50% of customers' single loan cost was <RMB1,000	Revolving, average at 3-4 months		Nearly 100% were private enterprises, >70% achieved <RMB10mn annual revenue; wholesale & retail, manufacturing, and construction industries accounted for >70% of the total balance, >50% had no enterprise credit scoring, as of end 2022; Of the customers who have received services for more than 2 years, >95% of them were still in business
Others	Industrial finance, sci-tech finance, acceptance bill discounting (Weishangtie)						

Source: company reports

BofA GLOBAL RESEARCH

Exhibit 27: Market share in China private bank segment (2022)

WeBank was the No. 1 across major metrics

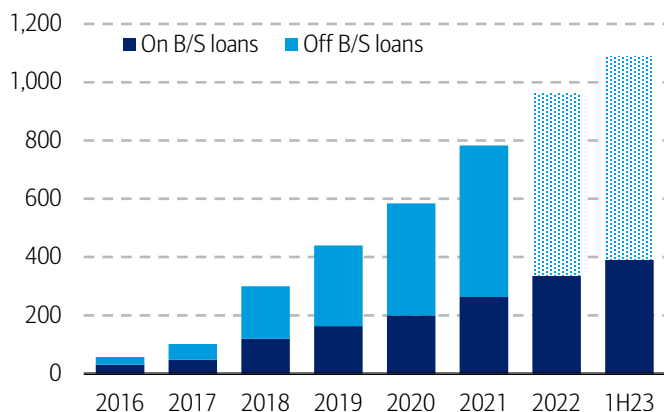


Source: company reports

BofA GLOBAL RESEARCH

Exhibit 29: WeBank: loans under management on and off B/S

LUM rose to >RMB1tn by 1H23

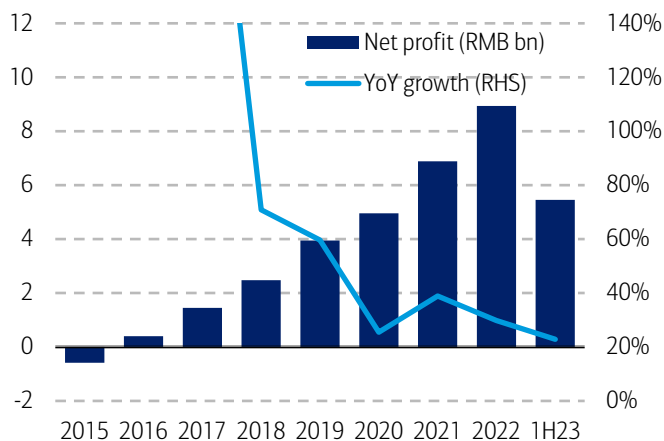


Source: company reports, dotted bars are BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 31: WeBank: net profit and YoY growth

Net profit growth decelerated to 23% YoY in 1H23

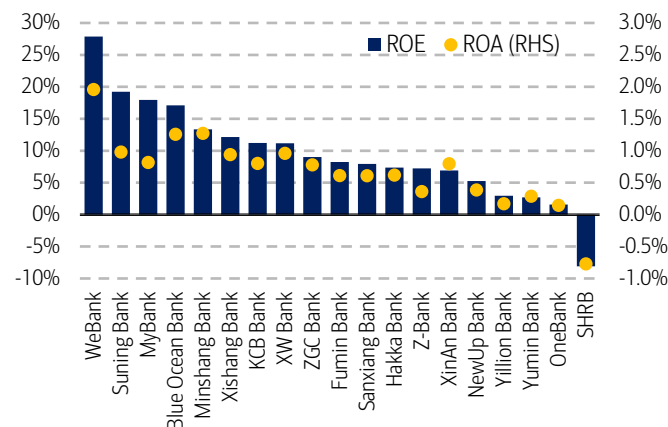


Source: company reports

BofA GLOBAL RESEARCH

Exhibit 28: ROA/ROE of private banks in China (2022)

WeBank was the most profitable private bank

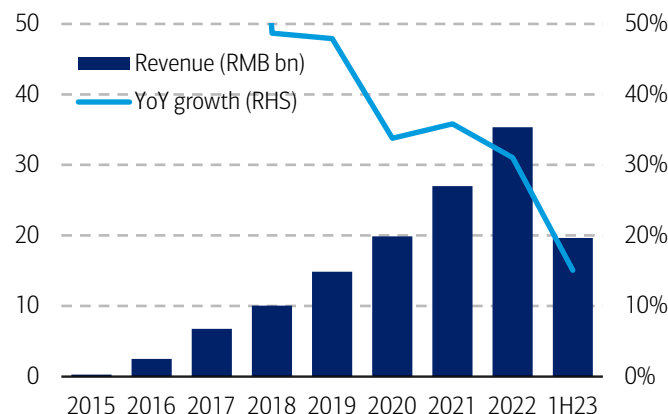


Source: company reports

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Exhibit 30: WeBank: revenue and YoY growth

Revenue growth decelerated to 15% YoY in 1H23

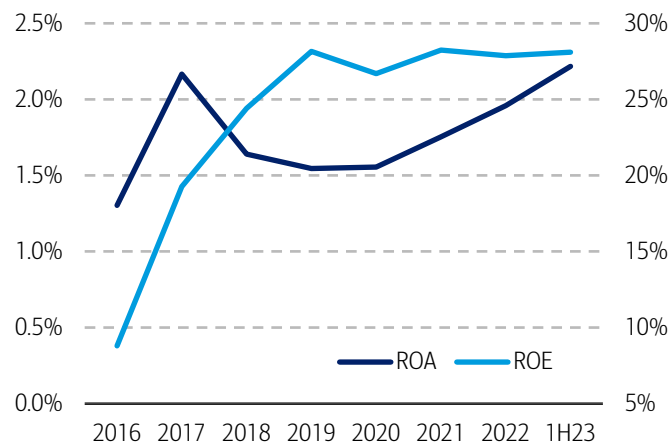


Source: company reports

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Exhibit 32: WeBank: ROA and ROE

ROA rose consistently while ROE was largely stable at 27-28% since 2020

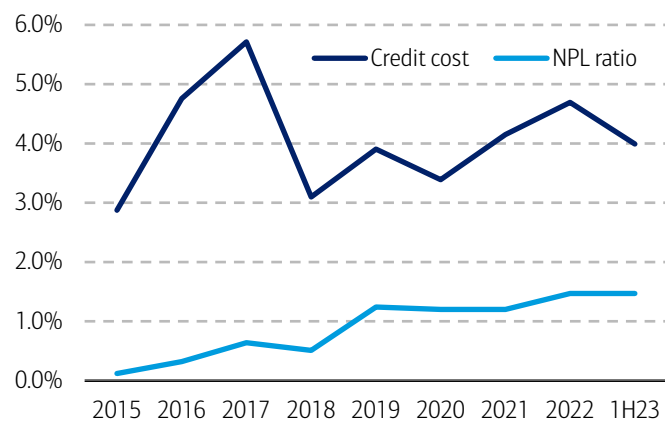


Source: company reports

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Exhibit 33: WeBank: credit cost and NPL ratio

NPL ratio stabilized HoH, while credit cost declined in 1H23

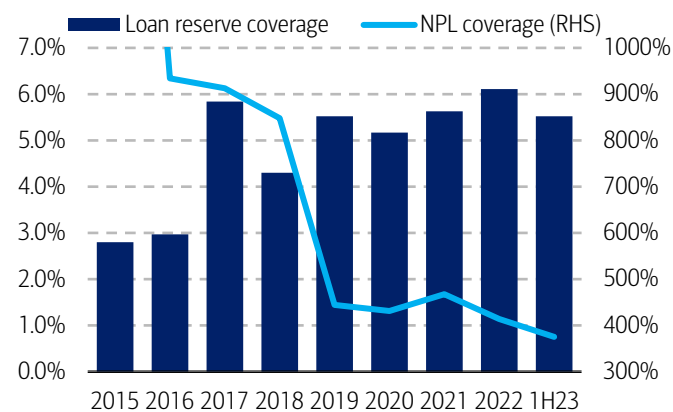


Source: company reports, BofA Global Research estimates

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Exhibit 34: WeBank: loan reserve coverage and NPL coverage

Loan reserve ratio was ~5.5% and NPL coverage ratio was 375% in 1H23



Source: company reports

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Appendix 2: FinTech credit regulations

China has tightened the regulations and supervisions on the FinTech credit space during 2H20 to 2022 and has summoned the leading platform companies several times to rectify their financial businesses. However, there was much less incremental policies since 2022, while the government's attitude toward platform companies was turning more positive. On Jan 7th, 2023, Shuqing Guo, the former PBOC Party Secretary and the CBIRC (China Banking and Insurance Regulatory Commission) Chairman, said the special campaign to rectify 14 internet platform companies' financial businesses basically completed with few remaining issues to be resolved. This was the first time that the regulators have made such statement in public. Caixin, a reputable media in China, reported on Jan 8th, 2023, that the last regulatory meeting convened by the regulators with the 14 leading platform companies was held on Sep 20th, 2022, during which officials indicated that no more restrictive policies would be issued for the sector. According to our meetings with various FinTech credit companies since 2023, they also guided that the regulatory environment for the industry has stabilized and expected no more further tightening in the near to medium term.

Exhibit 33: Regulatory progress on FinTech credit

The special campaign to rectify 14 internet platform companies' financial businesses basically completed by Jan 2023

Time	Event	Nature
Jul-20	CBIRC issued new rules on commercial banks' online lending	Tighten
Aug-20	China's Supreme Court capped APR of private lending at 4x of 1-year LPR	Tighten
Sep-20	PBOC published rules on regulating FHCs	Tighten
Sep-20	CBIRC issued a notice to local financial regulators on tightening regulation on MCCs/OMCCs	Tighten
Nov-20	CBIRC and PBOC jointly published a Consultation Paper on the regulation of OMCCs	Tighten
Nov-20	PBOC, CBIRC, CSRC and SAFE summoned Ant Group for regulation talks. Ant Group's IPO suspended	Tighten
Dec-20	Central Economic Work Conference said to enhance anti-trust and prevent capital from disorderly expansion	Tighten
Dec-20	PBOC, CBIRC, CSRC and SAFE summoned Ant Group and required it to rectify 5 key areas	Tighten
Jan-21	PBOC published a Consultation Paper on the regulation of credit reporting	Tighten
Feb-21	CBIRC issued a notice on further regulating banks' online lending	Tighten
Apr-21	PBOC, CBIRC, CSRC and SAFE summoned Ant Group on Apr 12th, and summoned another 13 leading internet platforms (including QFIN) on Apr 29th and required 7 rectification measures	Tighten
Aug-21	Financial institutions were reportedly guided to lower personal loan pricing (IRR) below 24% before Jun 2022	Tighten
Sep-21	PBOC published the regulation of credit reporting	Tighten
Mar-22	The PBOC Party Secretary and the CBIRC Chairman Shuqing Guo said the 14 internet platform companies has mostly finished the self-inspection, but the rectification campaign has not finished yet and there are still some problems to explore	Neutral
Mar-22	Vice Premier He Liu said the rectification campaign on platform companies should be completed as soon as possible to promote their stable and healthy growth	Positive
Jul-22	CBIRC issued a notice on strengthening banks' management of online lending	Tighten
Dec-22	Central Economic Work Conference said to promote digital economy, improve normalized supervision and encourage platform companies to play a bigger role in economic development, job creation and global competition	Positive
Jan-23	The PBOC Party Secretary and the CBIRC Chairman Shuqing Guo said regulators will continuously support private economy and promote the healthy development of internet platform companies. The special campaign to rectify 14 internet platform companies' financial businesses basically completed with few remaining issues to be resolved. Going forward, regulators will implement normalized supervision on platform companies and encourage them to play a bigger role in economic development, job creation and global competition.	Positive
Jan-24	PBOC said they are working with Zhejiang provincial government to guide Qiantang Credit to apply for personal credit scoring license	Positive

Source: PBOC, CBIRC, Various Media

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Acronym

BABA: Alibaba

B/S: Balance Sheet

CFC: Consumer Finance Company

FINV: FinVolution

GMV: Gross Merchandise Value

JD: Jingdong

LUM: Loan Under Management

LX: Lexin

NFRA: National Financial Regulatory Administration

NPL: Non-performing Loan

OMCC: Online Micro Credit Company

PBOC: People's Bank of China

PDD: Pinduoduo

QFIN: Qifu Technology

SME: Small and Medium Sized Enterprise

TTM: Trailing Twelve Month

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LU	LU US	Lufax Holding	US\$ 2.44	C-2-8
QFIN	QFIN US	Qifu Technology	US\$ 14.66	C-1-7
XDXRF	3660 HK	Qifu Technology	HK\$ 57.85	C-1-7

Source: BofA Global Research

Price objective basis & risk**Lufax Holding (LU)**

Our PO for Lufax at USD2.80 per ADS is based on 0.13x 2024E P/B, given the slow turnaround of its business and low visibility in earnings. Upside risks to our PO are more pro-growth policies to support economic growth and better-than-expected asset quality improvement at Lufax. Downside risks are further moderation in economic growth and further delayed turnaround of Lufax's business due to slower-than-expected economic recovery and/or weaker-than-expected execution.

Qifu Technology (QFIN / XDXRF)

Our PO for QFIN is USD20.0/HKD77.8, based on a target P/E multiple of 5x P/E on our 2023-24E earnings, implying 1.0x 2023-24E P/B. Our target P/E multiple for QFIN is justifiable, compared to traditional banks given QFIN's higher ROE/ROA, higher mix of capital-light business, and high provision coverage ratio. We believe QFIN deserves a valuation premium over other FinTech lenders due to stronger profitability, higher mix of capital-light business, good track record and better stock liquidity.

Downside risks to our PO are weak economic recovery, high youth jobless, lower loan pricing, intensified competition, weak capital markets/RMB and heightened geopolitical tension. Upside risks to our PO are faster-than-expected loan growth, better-than-expected risk performance, higher-than-expected take rate and progress in SaaS business.

Analyst Certification

I, Emma Xu, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



Greater China - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agricultural Bank of China	ACGBF	1288 HK	Winnie Wu
	Agricultural Bank Of China-A	XACNF	601288 CH	Winnie Wu
	AIA Group Limited	AAIGF	1299 HK	Michael Li
	Bank Of China	BACHF	3988 HK	Winnie Wu
	Bank of Comm	BKFCF	3328 HK	Winnie Wu
	Bank Of Communications Co-A	XNCTF	601328 CH	Winnie Wu
	Bank of Jiangsu	XBJCF	600919 CH	Emma Xu
	Bank of Suzhou	XCZIF	002966 CH	Wenqing Han, CFA
	BOC Hong Kong Holdings Ltd	BNKHF	2388 HK	Winnie Wu
	Chailease	XCAHZ	5871 TT	Brooksley Kang
	China CITIC Bk	CHBJF	998 HK	Emma Xu
	China Construction Bank	CICHF	939 HK	Winnie Wu
	China Construction Bank -A	XCTBF	601939 CH	Winnie Wu
	China Galaxy Securities Co Ltd	CGXYF	6881 HK	Michael Li
	China Life Insurance	CLJF	2628 HK	Michael Li
	China MERCH BK	CIHHF	3968 HK	Winnie Wu
	China MERCH BK -A	CIHKF	600036 CH	Winnie Wu
	China Merchants Securities	XMRKF	600999 CH	Susie Liu, CFA
	China Merchants Securities	XCJRF	6099 HK	Susie Liu, CFA
	China Pacific Insurance Group	CHPXF	2601 HK	Michael Li
	Chongqing Rural Commercial Bank	COGQF	3618 HK	Wenqing Han, CFA
	Chongqing Rural Commercial Bank - A	XCRQF	601077 CH	Wenqing Han, CFA
	CITIC Limited	CTPCF	267 HK	Ronald Leung, CFA
	CITIC Securities	CIHF	6030 HK	Michael Li
	CITIC Securities -A	CIISF	600030 CH	Michael Li
	CTBC FHC	CTFHF	2891 TT	Brooksley Kang
	Fubon FHC	FUISF	2881 TT	Brooksley Kang
	Futu Holdings	FUTU	FUTU US	Emma Xu
	GF Securities	GFSEZ	1776 HK	Susie Liu, CFA
	GF Securities	XMPQF	000776 CH	Susie Liu, CFA
	Guolian Securities	XLTYF	601456 CH	Susie Liu, CFA
	Guotai Junan International	GUOTF	1788 HK	Michael Li
	Guotai Junan Securities	XGUOF	2611 HK	Michael Li
	Guotai Junan Securities-A	XOQOF	601211 CH	Michael Li
	HKEX	HKXCF	388 HK	Michael Li
	Huatai Securities	XHTLF	601688 CH	Susie Liu, CFA
	Huatai Securities	HUATF	6886 HK	Susie Liu, CFA
	Ind & Comm BK	IDCBF	1398 HK	Winnie Wu
	Ind & Comm BK -A	XIKNF	601398 CH	Winnie Wu
	Jiangsu Changshu Rural Commercial Bank	XBJTF	601128 CH	Wenqing Han, CFA
	Noah Holdings Limited	NOAH	NOAH US	Emma Xu
	Noah Holdings Limited	XNHLF	6686 HK	Emma Xu
	PICC Group	PINXF	1339 HK	Michael Li
	PICC Property & Casualty	PPCCF	2328 HK	Michael Li
	Ping An Insurance	PIAIF	2318 HK	Michael Li
	Ping An Insurance	XPSPF	601318 CH	Michael Li
	Qifu Technology	QFIN	QFIN US	Emma Xu
	Qifu Technology	XDXRf	3660 HK	Emma Xu
	Sinolink Securities	XERQF	600109 CH	Susie Liu, CFA
	Waterdrop	WDH	WDH US	Michael Li
	Zheshang Securities	XDSEF	601878 CH	Susie Liu, CFA
	ZhongAn Online P&C Insurance	ZZHGF	6060 HK	Michael Li
NEUTRAL				
	Bank Of China -A	BACZF	601988 CH	Winnie Wu
	Bank of Hangzhou	XBHCF	600926 CH	Emma Xu
	Bank of Nanjing	XBNMF	601009 CH	Wenqing Han, CFA
	Bank of Ningbo	XBINF	002142 CH	Emma Xu
	Cathay FHC	XCIF	2882 TT	Brooksley Kang
	China Securities Corp	XCUEF	6066 HK	Susie Liu, CFA
	E.Sun FHC	ESUFF	2884 TT	Brooksley Kang
	Hang Seng Bk	HSNGF	11 HK	Winnie Wu
	Hang Seng Bk - A	HSNGY	HSNGY US	Winnie Wu
	Lufax Holding	LU	LU US	Emma Xu

Greater China - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	New China Life	NWWCF	1336 HK	Michael Li
	Postal Savings Bank of China	PSBKF	1658 HK	Winnie Wu
	Postal Savings Bank of China - A	XPSSF	601658 CH	Winnie Wu

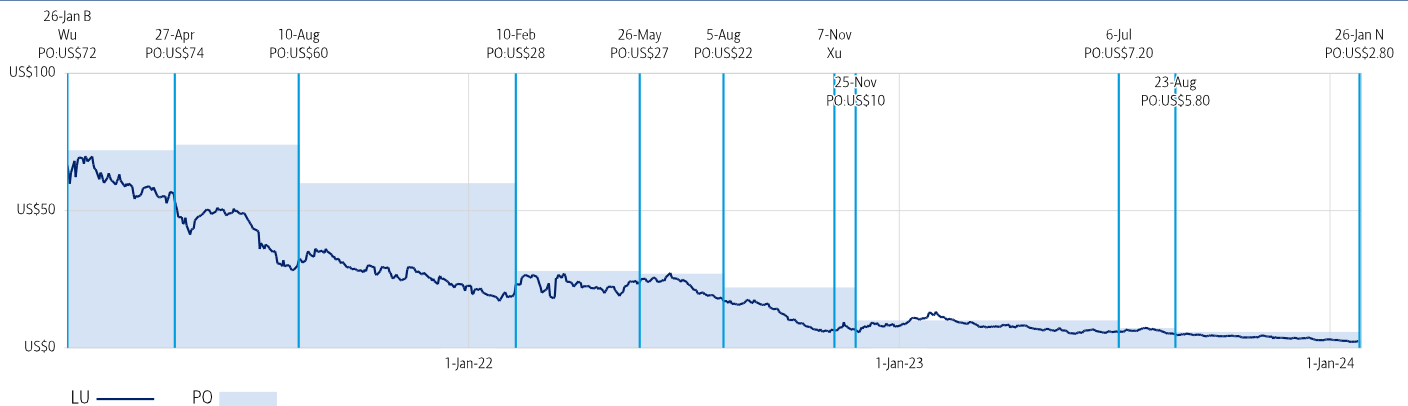
UNDERPERFORM

	Bank of Chengdu	XBCQF	601838 CH	Emma Xu
	Bank of E Asia	BKEAF	23 HK	Winnie Wu
	Bank of E Asia-A	BKEAY	BKEAY US	Winnie Wu
	BOC International (China)	XLTF	601696 CH	Susie Liu, CFA
	China Cinda Asset Management	CCGDF	1359 HK	Michael Li
	China CITIC Bk -A	CHCKF	601998 CH	Emma Xu
	China Everbright Bank	CEBCF	6818 HK	Emma Xu
	China Everbright Bank	XCBLF	601818 CH	Emma Xu
	China Galaxy Securities Co Ltd	XCXYF	601881 CH	Michael Li
	China Industrial Bank Co. Ltd.	INBLF	601166 CH	Emma Xu
	China International Capital Corporation	CNICF	3908 HK	Susie Liu, CFA
	China Life Insurance	XCNNF	601628 CH	Michael Li
	China Minsheng Banking Corp Ltd	CGMBF	1988 HK	Emma Xu
	China Minsheng Banking Corp Ltd -A	CMAKF	600016 CH	Emma Xu
	China Pacific Insurance Group	XCJNF	601601 CH	Michael Li
	China Securities Corp	XCSIF	601066 CH	Susie Liu, CFA
	Haitong Securities	HTNGF	6837 HK	Michael Li
	Haitong Securities -A	XHTSF	600837 CH	Michael Li
	Mega FHC	MGFNF	2886 TT	Brooksley Kang
	New China Life	XNWC	601336 CH	Michael Li
	Orient Securities	XOBNF	600958 CH	Susie Liu, CFA
	Orient Securities	XONQF	3958 HK	Susie Liu, CFA
	PICC Group	XPIDF	601319 CH	Michael Li
	Ping An Bank	XPABY	000001 CH	Emma Xu
	Shanghai Pudong Dev Bank	SHVPF	600000 CH	Emma Xu
	Shin Kong FHC	SKFHF	2888 TT	Brooksley Kang

Disclosures

Important Disclosures

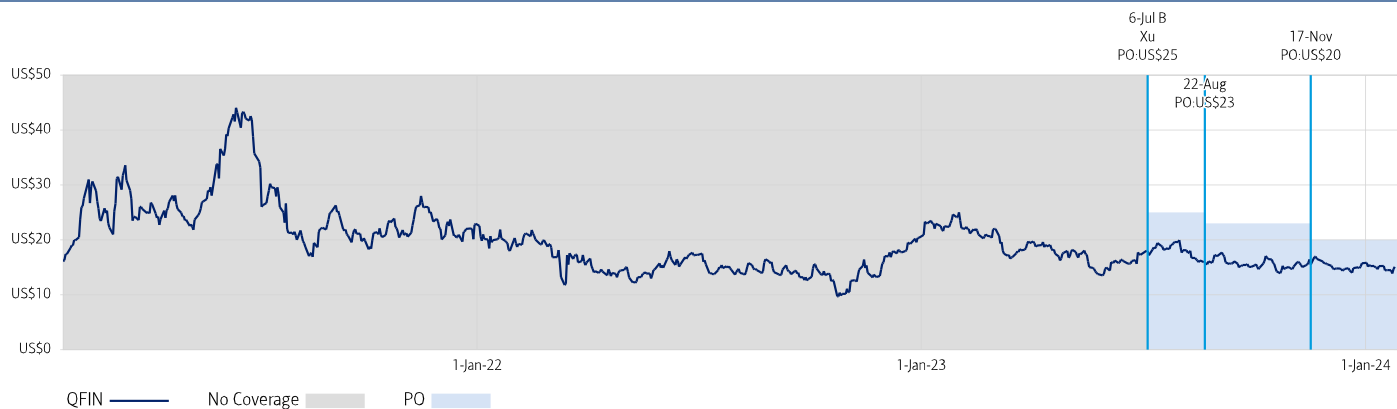
Lufax Holding (LU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Qifu Technology (QFIN) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Qifu Technology (XDXRF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Lufax Holding.

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