

Lufax Holding

The turnaround may take longer than expected – downgrade Lufax to Neutral

Rating Change: NEUTRAL | PO: 2.80 USD | Price: 2.46 USD

No turnaround in sight, downgrade Lufax to Neutral

We cut Lufax's 2023E attributed net profit estimate by 35% to RMB1.3bn and 2024-25E profit estimates by 66-90% to RMB0.2-1.3bn, lower 2023-25E BPS by 3-9%, reduce the target P/B multiple from 0.25x to 0.13x, similar to the levels some FinTech lenders and banks trading at during de-risking periods, and thus cut PO by 52% to USD2.80 from USD5.80. We downgrade Lufax to Neutral from Buy given no business turnaround in sight and low business visibility. We continue to prefer QFIN over Lufax for higher visibility, better a track record and high capital return.

2024 still looks challenging, consensus too optimistic

Given the weaker-than-expected economic recovery and migration to the full-guarantee model, Lufax only targets underwriting RMB190-210bn new loans in 2023 vs RMB500-650bn p.a. in 2019-22. As discussed in [our sector outlook report](#), FinTech SME lending could remain challenged in 2024E, especially for high-price long-maturity loans. We expect Lufax to remain conservative in 2024 and new loan sales in 2024 could be similar to (or lower than) 2023's. As such, loan balance and revenue will likely continue to decline in 4Q23 and 2024. Meanwhile, credit impairment losses could remain high due to continued indemnity losses for the legacy loan portfolio and upfront provision-taking for the new loans under the full-guarantee model. We now expect Lufax to record a loss in 4Q23 and probably in 1Q24. We expect the net profit to stabilize sequentially from 2H24, but remain at very low levels vs history, and FY24E net profit may still decline substantially. Consensus now forecasts revenue largely flat YoY at RMB34.8bn and net profit to rebound 50% YoY to RMB2.6bn in 2024, which are too optimistic, in our view.

Depressed P/B, probably special dividend

Lufax is now trading at a depressed P/B (price/book) valuation (only ~0.1x). While the regular dividend (20-40% of net profit) could be minimal given the depressed profitability, management indicated in its 3Q briefing that a special dividend could be a potential way to deliver value to shareholders and feasible given its solid cash position (3Q net cash at ~2.4x of market cap). We forecast RMB700mn dividend for each half year during 2H23 to 2H25 (vs ~RMB2.8bn/790mn/650mn for 1H22/2H22/1H23), implying ~15% annualized dividend yield. However, there is still uncertainty about the decision and potential size of the special dividend.

Estimates (Dec) (CNY)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	16,804	8,700	1,333	236	1,266
EPS	28.44	15.20	2.45	0.43	2.33
EPS Change (YoY)	27.1%	-46.6%	-83.9%	-82.3%	436.0%
Dividend / Share	9.11	6.07	2.48	2.57	2.57
Book Value / Share	171.75	171.23	168.58	166.44	166.19
Valuation (Dec)					
P/E	0.55x	1.13x	7.12x	40.63x	7.58x
Dividend Yield	51.70%	34.44%	14.07%	14.59%	14.59%
P/B	0.1x	0.1x	0.1x	0.1x	0.1x
RoE / PB	177.3x	86.2x	13.1x	2.3x	12.5x
Price / Pre-provision Profit	0.3x	0.3x	0.7x	0.7x	0.6x

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Refer to important disclosures on page 9 to 13. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

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Timestamp: 25 January 2024 03:30PM EST

26 January 2024

Equity

Key Changes

(CNY)	Previous	Current
Inv. Opinion	C-1-8	C-2-8
Inv. Rating	BUY	NEUTRAL
Price Obj.	US\$5.80	US\$2.80
2023E EPS	3.74	2.45
2024E EPS	4.53	0.43
2025E EPS	6.75	2.33

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Stock Data

Price	2.46 USD
Price Objective	2.80 USD
Date Established	25-Jan-2024
Investment Opinion	C-2-8
52-Week Range	2.11 USD-13.28 USD
Mkt Val / Shares Out (mn)	1,410 USD / 573.2
Average Daily Value (mn)	13.52 USD
Free Float	31.0%
BofA Ticker / Exchange	LU / NYS
Bloomberg / Reuters	LU US / LU.N
ROE (2023E)	1.4%

PO: Price Objective

QFIN: Qifu Technology

SME: small and medium-sized enterprises

iQprofileSM Lufax Holding

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(CNY Millions)					
Net Interest Income	14,174	18,981	12,907	12,163	13,842
Net Fee Income	38,294	29,219	15,035	9,904	9,116
Securities Gains / (Losses)	1,152	1,306	943.89	900.71	844.41
Other Income	8,215	8,610	5,369	3,933	3,777
Total Non-Interest Income	47,661	39,135	21,348	14,738	13,738
Total Operating Income	61,835	58,116	34,255	26,901	27,580
Operating Expenses	(31,189)	(28,128)	(19,789)	(12,729)	(10,785)
Pre-Provision Profit	30,645	29,988	14,466	14,172	16,795
Provisions Expense	(7,745)	(16,978)	(12,113)	(13,622)	(14,774)
Operating Profit	22,901	13,010	2,354	549.87	2,021
Non-Operating Income	499.38	3.46	117.06	0	0
Pre-Tax Income	23,400	13,014	2,471	549.87	2,021
Net Income to Comm S/Hold.	16,804	8,700	1,333	236.13	1,266
Adjusted Net Income (Operating)	16,804	8,700	1,333	236.13	1,266

Key Balance Sheet Data					
Total Assets	360,433	349,263	214,747	195,201	193,774
Average Interest Earning Assets	29,451	39,313	41,441	40,500	41,000
Weighted Risk Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	214,763	216,507	130,268	108,954	108,429
Total Customer Deposits	NA	NA	NA	NA	NA
Tier 1 Capital	NA	NA	NA	NA	NA
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	93,054	93,190	91,749	90,585	90,451

Key Metrics					
Net Interest Margin	48.13%	48.28%	31.15%	30.03%	33.76%
Tier 1 Ratio	NA	NA	NA	NA	NA
Effective Tax Rate	28.6%	32.6%	39.0%	30.0%	30.0%
Loan / Assets Ratio	58.8%	60.0%	60.7%	55.8%	56.0%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Oper Leverage (Inc Growth - Cost Growth)	15.4%	3.8%	-11.4%	14.2%	17.8%
Gearing (Assets / Equity)	3.9x	3.7x	2.3x	2.2x	2.1x
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
Tangible Common Equity / WRAs	NA	NA	NA	NA	NA
Revenue Growth	18.8%	-6.0%	-41.1%	-21.5%	2.5%
Operating Expense Growth	3.4%	-9.8%	-29.6%	-35.7%	-15.3%
Provisions Expense Growth	154.6%	119.2%	-28.7%	12.5%	8.5%
Operating Revenue / Average Assets	20.3%	16.4%	12.1%	13.1%	14.2%
Operating Expenses / Average Assets	10.2%	7.9%	7.0%	6.2%	5.5%
Pre-Provision ROA	10.1%	8.5%	5.1%	6.9%	8.6%
ROA	5.5%	2.5%	0.5%	0.1%	0.7%
Pre-Provision ROE	35.1%	32.2%	15.6%	15.5%	18.6%
ROE	19.2%	9.3%	1.4%	0.3%	1.4%
RoTE	NA	NA	NA	NA	NA
RoWRAs	NA	NA	NA	NA	NA
Dividend Payout Ratio	32.0%	39.9%	101.2%	592.9%	110.6%
Efficiency Ratio	51.4%	49.5%	59.4%	49.0%	40.3%
Headline Cost/Income Ratio	50.4%	48.4%	57.8%	47.3%	39.1%
Total Non-Interest Inc / Operating Inc	77%	67%	62%	55%	50%
Market-Related Revenue / Total Revenues	5.4%	5.2%	4.2%	3.3%	3.1%
Provisioning Burden as % of PPP	25.3%	56.6%	83.7%	96.1%	88.0%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	1.3%	3.4%	0%	0%	0%
Provisions Expense / Average Loans	4.7%	8.1%	7.1%	11.4%	13.6%

Other Metrics					
Income / Employee	669,354	818,148	NA	NA	NA
(Operating Expenses) / Employee	337,622	395,984	NA	NA	NA
Pre-Provision Profit / Employee	331,732	422,163	NA	NA	NA
Net Profit / Employee	181,905	122,476	NA	NA	NA

Company Sector

Other Financials

Company Description

Lufax is a leading technology-empowered personal financial services platform in China, mainly providing loans to small business owners & salaried workers. Ping An Group held a 41% stake in Lufax and senior management of Ping An Group & Lufax held another 28% by 1H23.

Investment Rationale

We rate Lufax at Neutral as its operational and financial outlook remains challenging in 2024, but P/B valuation has fallen to a depressed level while a special dividend is possible.

Stock Data

Price to Book Value

0.1x

2024 still looks challenging, consensus too optimistic

Given the weaker-than-expected economic recovery and migration to the full-guarantee model, Lufax only targets underwriting RMB190-210bn new loans in 2023, vs RMB500-650bn p.a. in 2019-22. As discussed in [our sector outlook report](#), FinTech SME lending could remain challenged in 2024E, especially for high-price long-maturity loans. We expect Lufax to remain conservative in 2024 and the new loan sales in 2024 could be similar to (or lower than) 2023's. As such, loan balance and revenue will likely continue to decline in 4Q23 and 2024. Meanwhile, credit impairment losses could remain high due to continued indemnity losses for the legacy loan portfolio and upfront provision-taking for the new loans under the full-guarantee model. We now expect Lufax to record a loss in 4Q23 and probably in 1Q24. We expect net profit to stabilize sequentially from 2H24, but still at very low levels vs history, and FY24E net profit may still decline substantially YoY. Consensus now forecasts Lufax's revenue largely flat YoY at RMB34.8bn and net profit to rebound 50% YoY to RMB2.6bn in 2024, which are too optimistic, in our view.

Exhibit 1: Summary financial information for Lufax

We expect loan balance, revenue and net profit to continue declining in 2024E

RMB mn	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total operating income	27,819	40,500	47,834	52,046	61,835	58,116	34,255	26,901	27,580
Growth		+45.6%	+18.1%	+8.8%	+18.8%	-6.0%	-41.1%	-21.5%	+2.5%
Total operating expenses	(15,944)	(20,489)	(26,728)	(30,152)	(31,189)	(28,128)	(19,789)	(12,729)	(10,785)
Growth		+28.5%	+30.5%	+12.8%	+3.4%	-9.8%	-29.6%	-35.7%	-15.3%
Pre-provision profit	11,875	20,011	21,106	21,894	30,645	29,988	14,466	14,172	16,795
Growth		+68.5%	+5.5%	+3.7%	+40.0%	-2.1%	-51.8%	-2.0%	+18.5%
Impairment losses	(3,736)	(941)	(1,997)	(3,042)	(7,745)	(16,978)	(12,113)	(13,622)	(14,774)
Profit before tax	8,364	18,650	19,434	19,236	23,400	13,014	2,471	550	2,021
Income tax	(2,337)	(5,073)	(6,117)	(5,633)	(6,691)	(4,238)	(964)	(165)	(606)
Net profit	6,027	13,577	13,317	13,602	16,709	8,776	1,506	385	1,414
Growth		+125.3%	-1.9%	+2.1%	+22.8%	-47.5%	-82.8%	-74.4%	+267.5%
Minority interest & others	(62)	44	15	(1,248)	95	(76)	(173)	(149)	(149)
Net profit attributable to shareholders	5,965	13,621	13,332	12,354	16,804	8,700	1,333	236	1,266
Growth		+128.3%	-2.1%	-7.3%	+36.0%	-48.2%	-84.7%	-82.3%	+436.0%
EPS (RMB)	11.2	25.3	24.5	22.4	28.4	15.2	2.4	0.4	2.3
Growth		+125.7%	-3.0%	-8.8%	+27.1%	-46.6%	-83.9%	-82.3%	+436.0%
BPS (RMB)	38.8	64.3	88.4	136.4	171.7	171.2	168.6	166.4	166.2
Growth		+65.6%	+450.2%	+54.3%	+25.9%	-0.3%	-1.5%	-1.3%	-0.1%
DPS (RMB)					9.11	6.07	2.48	2.57	2.57
Growth						-33.4%	-59.2%	+3.8%	+0.0%
Supplementary Financial Information									
Volume of new loans facilitated	343,792	396,962	493,723	564,963	648,404	495,400	200,000	200,000	220,000
Growth		+15.5%	+24.4%	+14.4%	+14.8%	-23.6%	-59.6%	+0.0%	+10.0%
Outstanding loan balance	288,434	375,006	462,243	545,150	661,030	576,500	310,289	226,871	215,124
Growth		+30.0%	+23.3%	+17.9%	+21.3%	-12.8%	-46.2%	-26.9%	-5.2%
On balance sheet loan size	100,230	35,465	48,214	118,494	214,763	216,507	130,268	108,954	108,429
As % of total loans	35%	9%	10%	22%	32%	38%	42%	48%	50%
Loans with risk exposure	70,860	20,005	10,114	34,150	109,930	135,400	125,244	174,064	195,565
As % of total loans	25%	5%	2.2%	6.3%	17%	23%	40%	77%	91%
Key financial metrics									
Cost-income ratio	57.3%	50.6%	55.9%	57.9%	50.4%	48.4%	57.8%	47.3%	39.1%
Effective tax ratio	27.9%	27.2%	31.5%	29.3%	28.6%	32.6%	39.0%	30.0%	30.0%
Total assets	180,358	117,919	149,534	248,890	360,433	349,263	214,747	195,201	193,774
Shareholders' equity	20,668	34,929	48,042	81,560	93,054	93,190	91,749	90,585	90,451
Asset/Equity	8.7x	3.4x	3.1x	3.1x	3.9x	3.7x	2.3x	2.2x	2.1x
ROA	3.8%	9.1%	10.0%	6.2%	5.5%	2.5%	0.5%	0.1%	0.7%
ROE	34.3%	49.0%	32.1%	17.7%	19.2%	9.3%	1.4%	0.3%	1.4%
Net profit margin	21.4%	33.6%	27.9%	23.7%	27.2%	15.0%	3.9%	0.9%	4.6%

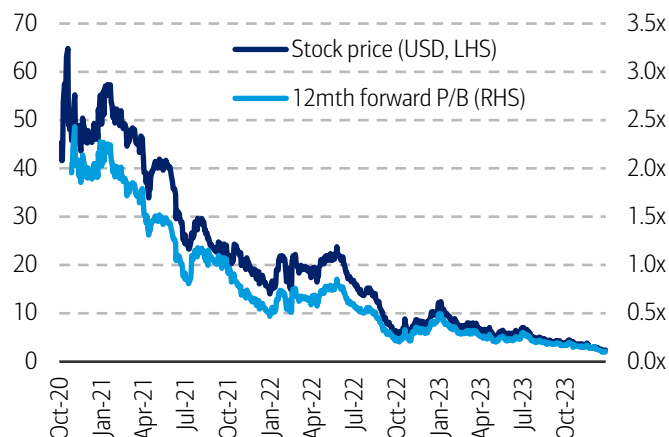
Source: BofA Global Research estimates, company reports

Depressed P/B, potential special dividend

Lufax is now trading at a depressed P/B valuation (only ~0.1x). While the regular dividend (20-40% of net profit) could be minimal given the depressed profitability, management indicated in its 3Q briefing that a special dividend could be a potential way to deliver value to shareholders and feasible given its strong cash position (3Q net cash at ~2.4x of market cap). We forecast a RMB700mn dividend for each half year during 2H23 to 2H25 (vs ~RMB2.8bn/790mn/650mn for 1H22/2H22/1H23), implying ~15% annualized dividend yield. However, there is still uncertainty about the decision and size of a potential special dividend.

Exhibit 2: Lufax: stock price and 12mth forward P/B

Lufax's P/B valuation is at historical low level

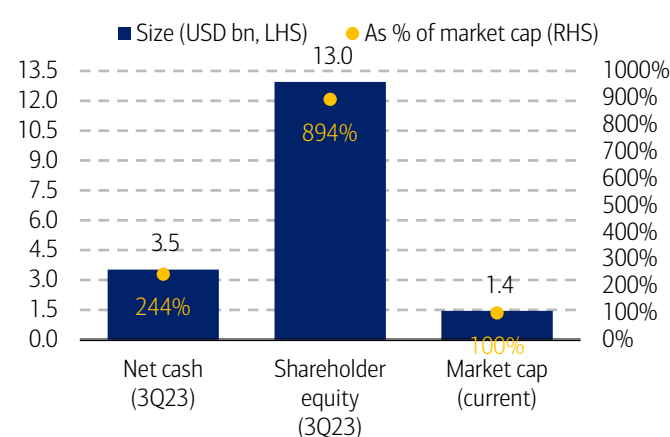


Source: Bloomberg

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Exhibit 3: Lufax: net cash, shareholder equity vs market cap

Lufax's net cash is ~2.4x of its market cap now



Source: Company reports; Bloomberg, as of Jan 25, 2024; Net cash is defined as cash at banks + financial investment – borrowings – bond payable – convertible promissory notes

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3Q23 Update

The de-risking continued

In light of the macroeconomic environment, Lufax continues to prioritize quality over quantity. Its new loans declined 6% QoQ to RMB50.5bn and loan size reduced 14% QoQ to RMB366bn in 3Q, in line with management guidance. Revenue declined 13% QoQ to RMB8bn and net profit declined 90% QoQ to RMB94mn in 3Q. Given the declining loan balance and seasonally higher cost in 4Q, revenue and profit could continue to decline sequentially in 4Q.

Depressed profitability amid business transition

On business management scope, IRR for the loan portfolio fell 0.2ppt QoQ to 20.1% in 3Q, mainly due to maturity of legacy high-yielding loans, while new loan pricing held up well. Funding cost declined 0.1ppt QoQ to 6.1%. CGI (credit guarantee insurance) cost rose 0.1ppt QoQ to 6.3%. Selling & marketing cost and other operating cost both rebounded ~0.4ppt QoQ to 2.3%, and credit cost rose ~0.6ppt QoQ to 3.0%. As such, net margin fell to ~0.2% in 3Q. Flow rate, a leading indicator for delinquency, rose 0.1ppt QoQ/YTD to 1.10% in 3Q, partly due to shrinking loan balance, of which the unsecured loan flow rate remained unchanged QoQ at 1.2% while the secured loan flow rate increased 0.2ppt QoQ to 0.7%. Management guided asset quality of new loans enabled in 2023 is in line with their expectations, although not yet recovered to pre-COVID levels. Provision charge was largely flat QoQ at RMB3.0bn in 3Q and will stay at this level for 4Q as per management (despite lower loan balance), due to upfront provision-taking under the full-guarantee model. Transition to the full-guarantee model is on track: Lufax bore risk on 54.3% of the new loans (ex CFC) enabled in 3Q, up 32.6ppt YoY/15.1ppt QoQ. It bore 31.8% of risk in terms of loan balance (incl. CFC), up 9.3ppt YoY/4.3ppt QoQ.

Stepping up diversification efforts

Given the challenges to SME loans, Lufax continues to diversify its business. Consumer finance loans already accounted for ~40% of the new loans in 3Q or ~10% of the total loans outstanding by 3Q. They could continue to contribute a large portion of the new loans in the next few quarters and their percentage in total loans outstanding will likely continue rising. Lufax also announced today the plan to acquire 100% of the equity interest of Ping An OneConnect Bank (PAOB), a licensed virtual bank in HK focusing on SME businesses. Lufax will pay HK\$933mn (roughly 1.2-1.3x P/B) for the deal and aims to leverage its expertise in the SME lending to grow PAOB.

Exhibit 4: Lufax quarterly financial table

Lufax's historical quarterly performance comparison

RMB mn	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23
Retail credit facilitation service fees	9,283	39,457	9,665	9,194	9,100	8,128	36,087	8,700	6,912	6,308	5,554	27,474	4,760	3,913	3,194
WM transaction & service fees	575	1,765	625	407	467	708	2,207	592	467	364	321	1,745	251	163	65
Net interest income	2,333	7,750	2,911	3,227	3,802	4,234	14,174	4,984	5,010	4,618	4,369	18,981	3,349	3,367	3,307
Guarantee income	256	602	551	891	1,293	1,635	4,370	1,902	1,936	1,863	1,671	7,373	1,417	1,149	941
Others	839	2,472	1,498	1,110	1,262	1,126	4,996	1,138	962	39	404	2,543	302	679	543
Total operating income	13,286	52,046	15,251	14,828	15,924	15,831	61,835	17,316	15,288	13,193	12,319	58,116	10,078	9,270	8,050
Sales and marketing costs	-4,885	-17,814	-4,233	-4,316	-4,609	-4,835	-17,993	-4,484	-3,496	-4,071	-3,706	-15,757	-3,030	-2,540	-2,290
General and administrative costs	-986	-2,976	-854	-798	-937	-971	-3,559	-726	-762	-592	-750	-2,830	-756	-493	-500
Operation and servicing costs	-1,650	-6,031	-1,521	-1,476	-1,660	-1,900	-6,558	-1,590	-1,581	-1,600	-1,659	-6,430	-1,558	-1,576	-1,478
Technology and analytics costs	-461	-1,792	-447	-517	-524	-597	-2,084	-448	-483	-484	-458	-1,872	-341	-344	-382
Finance costs	-326	-1,540	-284	-276	-168	-267	-996	-211	-221	-306	-501	-1,239	-189	-136	-40
Total operating expenses	-8,309	-30,152	-7,339	-7,383	-7,899	-8,569	-31,189	-7,458	-6,544	-7,052	-7,075	-28,128	-5,874	-5,089	-4,690
Pre-provision profit	4,977	21,894	7,912	7,446	8,026	7,262	30,645	9,858	8,744	6,141	5,244	29,988	4,204	4,181	3,360
Impairment losses	-992	-3,042	-1,053	-1,396	-2,074	-3,222	-7,745	-2,824	-3,865	-4,024	-6,266	-16,978	-3,132	-2,998	-3,001
Profit before tax	4,179	19,236	6,721	6,351	5,988	4,340	23,400	7,153	4,353	2,111	-603	13,014	1,114	1,314	303
Income tax	-1,333	-5,633	-1,752	-1,623	-1,873	-1,443	-6,691	-1,863	-1,416	-756	-203	-4,238	-382	-310	-172
Net profit	2,847	13,602	4,969	4,729	4,115	2,896	16,709	5,290	2,936	1,355	-805	8,776	732	1,004	131
Minority interest & others	39	-1,248	27	45	14	10	95	-11	-27	-28	-9	-76	-60	-38	-37
Net profit attrib. to shareholders	2,886	12,354	4,995	4,774	4,129	2,906	16,804	5,279	2,909	1,327	-815	8,700	672	965	94
Supplementary Data	4Q20	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23
Retail credit facilitation business															
Total new loan volume	132,700	564,963	172,400	152,700	171,700	151,600	648,404	164,300	129,500	123,800	77,800	495,400	57,000	53,500	50,500
Take rate	9.1%	9.8%	10.0%	9.7%	9.7%	9.0%	9.7%	9.7%	8.6%	7.8%	7.7%	8.9%	7.3%	7.6%	7.8%
Outstanding loan balance	545,150	545,150	582,600	606,800	645,100	661,030	661,030	676,300	661,400	636,500	576,500	576,500	495,200	426,400	366,300
Loans with risk exposure	34,150	34,150	50,686	68,568	95,475	109,930	109,930	131,202	140,217	143,213	135,478	135,400	121,324	117,260	116,483
As % of total loans	6.3%	6.3%	8.7%	11.3%	14.8%	16.6%	16.6%	19.4%	21.2%	22.5%	23.5%	23.5%	24.5%	27.5%	31.8%
30D delinquency rate	2.0%	2.0%	2.0%	1.9%	1.9%	2.2%	2.2%	2.6%	3.1%	3.6%	4.6%	4.6%	5.7%	5.9%	6.0%
90D delinquency rate	1.2%	1.2%	1.1%	1.1%	1.1%	1.2%	1.2%	1.4%	1.7%	2.1%	2.6%	2.6%	3.3%	3.6%	3.7%
Key financial metrics															
Cost-income ratio	62.5%	57.9%	48.1%	49.8%	49.6%	54.1%	50.4%	43.1%	42.8%	53.5%	57.4%	48.4%	58.3%	54.9%	58.3%
Effective tax ratio	31.9%	29.3%	26.1%	25.5%	31.3%	33.3%	28.6%	26.0%	32.5%	35.8%	-33.6%	32.6%	34.3%	23.6%	56.8%
Total assets	248,890	248,890	279,928	308,944	334,207	360,433	360,433	377,983	370,660	370,669	349,263	349,263	325,597	280,881	259,177
Shareholders' equity	81,560	81,560	86,594	89,552	91,819	93,054	93,054	98,333	95,679	93,509	93,190	93,190	93,311	93,325	92,796
Asset/Equity	3.1x	3.1x	3.2x	3.4x	3.6x	3.9x	3.9x	3.8x	3.9x	4.0x	3.7x	3.7x	3.5x	3.0x	2.8x
ROA	5.0%	6.2%	7.6%	6.5%	5.1%	3.3%	5.5%	5.7%	3.1%	1.4%	-0.9%	2.5%	0.8%	1.3%	0.1%
ROE	16.4%	17.7%	23.8%	21.7%	18.2%	12.6%	19.2%	22.1%	12.0%	5.6%	-3.5%	9.3%	2.9%	4.1%	0.4%
Net profit margin	21.7%	23.7%	32.8%	32.2%	25.9%	18.4%	27.2%	30.5%	19.0%	10.1%	-6.6%	15.0%	6.7%	10.4%	1.2%

Source: Company reports

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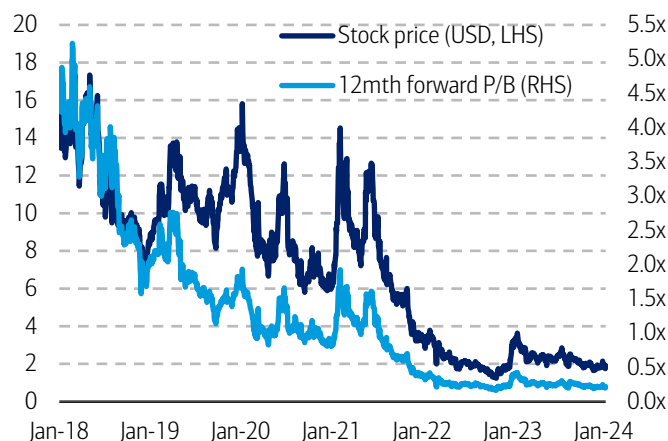


No turnaround in sight, downgrade Lufax to Neutral

We cut Lufax's 2023E attributed net profit estimate by 35% to RMB1.3bn and 2024-25E profit estimates by 66-90% to RMB0.2-1.3bn, lower 2023-25E BPS by 3-9%, reduce the target P/B multiple from 0.25x to 0.13x, similar to the levels some FinTech lenders and banks trading at during de-risking periods, thus cut PO by 52% to USD2.80. We downgrade Lufax to Neutral given no business turnaround in sight and low business visibility. We continue to prefer QFIN (QFIN US) over Lufax for higher earnings visibility, a better track record and high capital return.

Exhibit 5: Lexin: price vs 12mth forward P/B

P/B de-rated to ~0.15x in 2022 when its credit risk rose while revenue and profit dropped

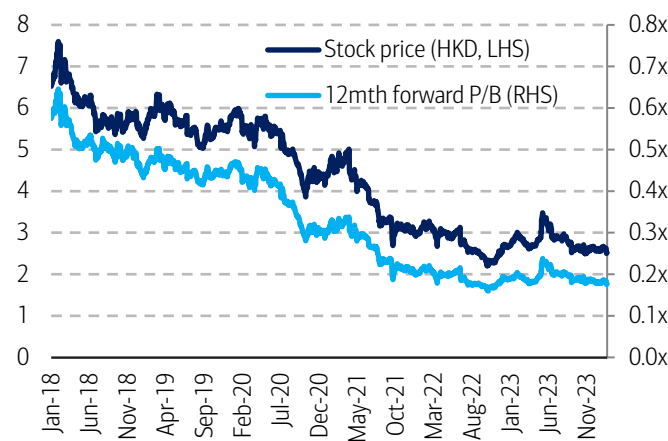


Source: Bloomberg

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Exhibit 6: Minsheng Bank: price vs 12mth forward P/B

P/B de-rated to ~0.15x in 2022 with elevated asset quality concern and continuous revenue decline



Source: Bloomberg

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Exhibit 7: China FinTech/Bank valuation comp

Lufax trades at a discount to China FinTech peers and most banks in terms of P/B valuation, partly due to depressed profitability and shrinking business

	Bloomberg Ticker	BofA Rating	Price (USD; HKD)	Mkt cap (USD mn)	P/E 2023E	P/E 2024E	P/B 2023E	P/B 2024E	Dividend Yield 2023E	Dividend Yield 2024E	ROE 2023E	ROE 2024E	ROA 2023	ROA 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, Bloomberg consensus for FINV/LX

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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, USD15.09 / HKD59.2, C-1-7)

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	CIHMF	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



Greater China - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	CITIC Securities	CIHF	6030 HK	Michael Li
	CITIC Securities -A	CIISF	600030 CH	Michael Li
	CTBC FHC	CTHFH	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	XDXXF	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	XCIFF	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
	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)	XLFTF	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	XNWCF	601336 CH	Michael Li

Greater China - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

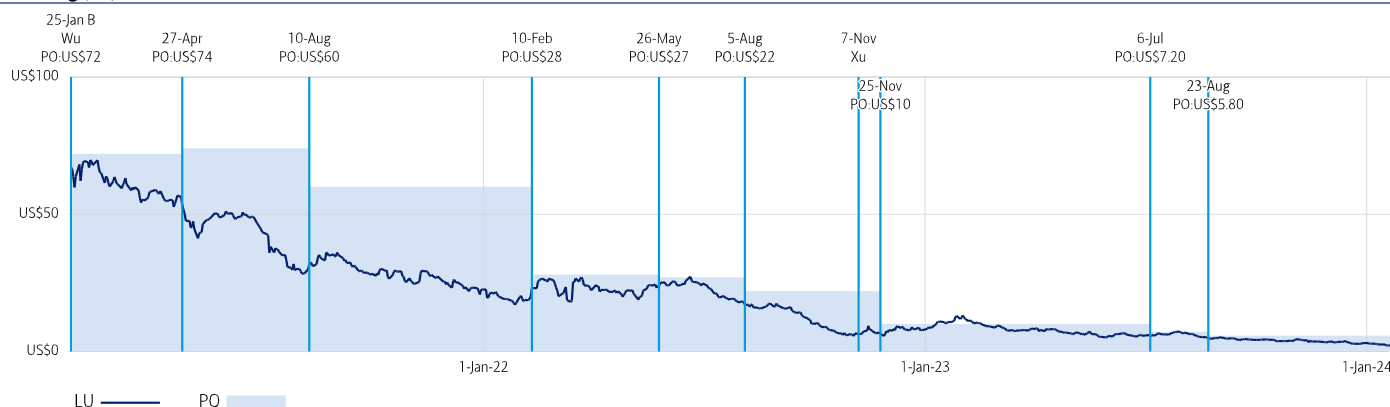
EV / EBITDA

Basic EBIT + Depreciation + Amortization

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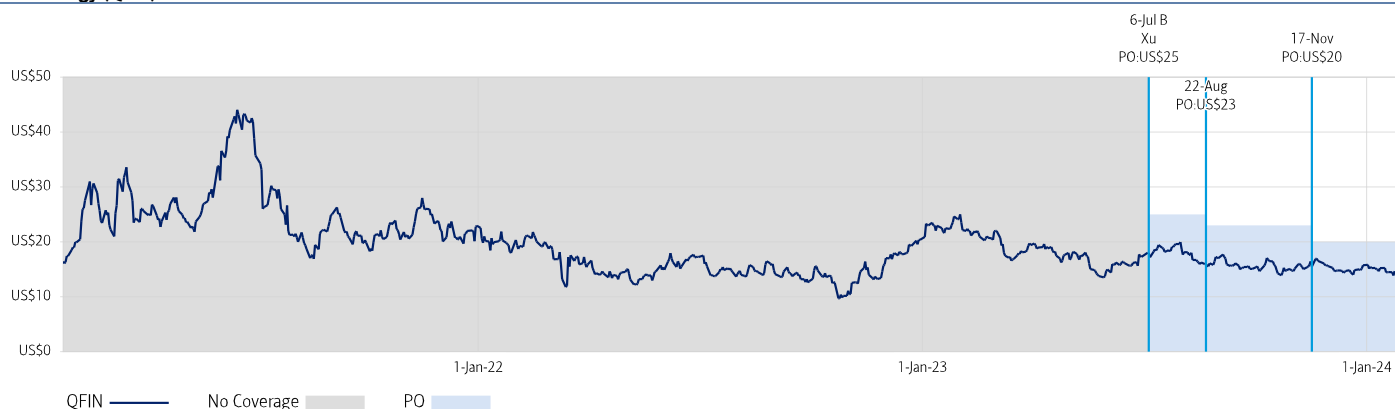
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Disclosures**Important Disclosures****Lufax Holding (LU) Price Chart**

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



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 (XDXRF) 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.

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.

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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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BofAS or one of its affiliates is willing to sell to, or buy from, clients the common equity of the issuer on a principal basis: Lufax Holding, Qifu Technology.

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The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

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