

# China / Hong Kong Industry Focus

## China Fintech Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

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### Lufax – Let's think big

- China's P2P loans reached Rmb1.2tn in 2017, at CAGR of 128% during 2014-17. Lufax, a dominant leader, is well positioned to benefit from ongoing consolidation
- Lufax has potential to generate profit of Rmb10bn+ on existing scale despite Ping An's disclosure that it only turned profitable in 2Q17
- Despite BAT tapping into online financing services, Lufax with its long history of "credit data" should help cement its leading position
- Our blue sky scenario suggests Ping An's (2318 HK, BUY) fair value may reach HK\$126. Stay positive on Ping An ahead of Lufax's upcoming IPO

**Dominant leader surfing on fast-growing P2P market:** China's peer-to-peer (P2P) loans reached Rmb1.2tn, growing at 128% CAGR during 2014-17 and represent 3% and 21% of retail and credit card loans, Policy tightening on online lending platforms will lead to further market consolidation, with expectations that the number of P2P platforms will shrink to 800 by the end of 2018, down from 1,931 in 2017. As a dominant leader with 22% market share, strong franchise and proven credit system, Lufax is set to continue to benefit.

**Rmb10bn+ profit business:** With limited data available, investors are in the dark about Lufax's earnings potential. Ping An's disclosure indicated that Lufax turned profitable in 1H17, and earnings from internet finance business reached Rmb675m in 3Q17, a swing from a loss of Rmb2.7bn in 2016 (excludes Puhui's one-off gain). By analysing China's listed P2P and brokers' average operating results, our estimates suggest that Lufax has the potential to hit Rmb10bn+ earnings based on existing scale, which represents 6.5% of Ping An's earnings. We believe the main difference to earlier expectations is due to Lufax's previous "full guarantee model", but now changed to "third-party credit guarantee model" with also benefit from rising operating leverage.

**"Credit data" is the key:** There is a trend of internet giants namely the BAT trio (Baidu, Alibaba, Tencent), also tapping into the online financial services space. While each holds a different niche, we believe Lufax's 12-year "credit data" history will serve as a key asset to further entrench itself in the online financing service space. BAT's average ROE is 19.7% and trades at 7.3x P/B and 31.6x PE. Ping An's ROE is 17.4% and trades at 2.3x P/B and 13.3x PE. With Ping An's continuous growth in online financial service space, we believe the valuation gap between the two is likely to narrow.

**Blue sky scenario – Ping An's fair value to reach HK\$126:** Based on our base case scenario, Lufax/Ping An's fair value is US\$55bn and HK\$100/share. Our blue sky scenario suggests Lufax's fair value could reach US\$229bn and Ping An at HK\$126/share. We suggest investors to stay positive on Ping An ahead of Lufax's upcoming IPO.

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#### Online consumer loan/P2P

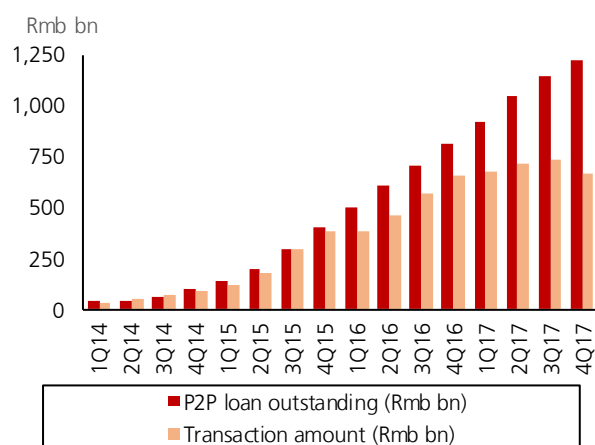
Platform	Lufax	China Rapid finance	Yirendai	Paipaidai	Qudian	Hexindai
Established year	2011	2004	2012	2007	2014	2014
Ticker	n.a.	XRF: US	YRD: US	PPDF: US	QD: US	HX: US
Market cap.(US\$m)*	n.a.	390	2,239	2,645	4,548	590
Sales in FY16 (US\$ mil)	n.a.	56	488	174	217	12
Price to sales (x)	n.a.	7.0	4.6	15.2	20.9	49.5
Price to loan originated (x)	n.a.	0.4	0.8	0.9	1.0	1.3
Loan volume in FY16 (US\$ m)	25,429	1,062	2,921	2,932	4,754	470

Source: Company, DBS Vickers

**Dominant leader surfing on fast-growing P2P market**

China's P2P (peers to peer) lending first appeared in the market back in 2007, aiming to provide financing to the vast number of individuals and small enterprises who are underserved by the original banking system, as well as to provide wealth management solutions to fulfil their investment needs while using online and "technology" as channels for credit risk management. The segment has undergone strong growth during 2014-17, with P2P loan expanding by 128% CAGR during the period (figure 1). By 2017, total P2P loans outstanding reached Rmb1.2tn with annual transaction volume hitting Rmb2.8tn. The scale of P2P loan is equal to 3% and 21% of China's retail and credit card revolving loan, respectively, but with stronger growth prospects.

**Fig 1: China's P2P loan outstanding**



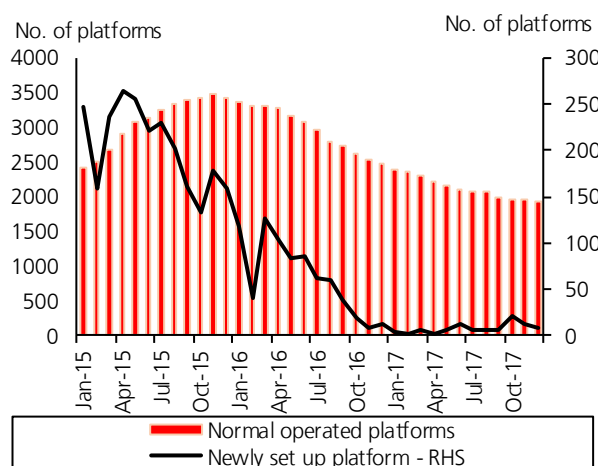
Source: Wang Dai Zhi Jia, DBS Vickers

Aiming to grab a piece of the pie of the growing market, a host of new P2P platforms were established in the past few years, with 2,451 alone in 2015. The number of total platforms also surpassed 5,000 for the first time during the year 2015. Nonetheless, due to the lack of sufficient credit risk management know-how, scale and efficiency, one-third of the platforms were considered as problem platforms and the market has started to consolidate since then. Coupled with several policy tightening measures launched during 2H16 and 2017, China's P2P market has further consolidated with number of normal operating platforms reaching 1,931 (figure 2). According to Wang Dai Zhi Jian, it expects the total number of operational platforms to further shrink to 800 platforms by end of 2018, suggesting aggressive market consolidation.

Fewer players may suggest a temporary slowdown in China's P2P loan growth in the near term, but with sustained strong financing and investment demand from China's vast underserved population, we believe market consolidation is a

short-term pain but long term positive for the P2P market development. Ultimately, platforms with a strong franchise, well-established credit management system, and scale are expected to be the long-term survivors. That said, we believe Lufax will undoubtedly be the main beneficiary given its leading position with 22% market share and a proven track record.

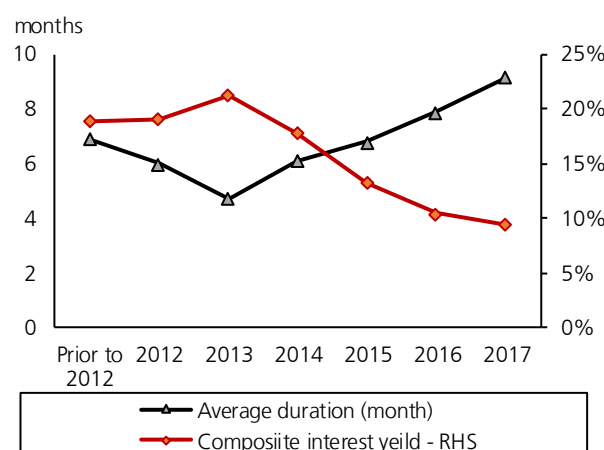
**Fig 2: No. of normal operating P2P platforms**



Source: Wang Dai Zhi Jia, DBS Vickers

The current policies aim to improve the transparency of P2P platform's information disclosure. Leading players such as Lufax who are able to conduct more precise risk profile management and pricing are also migrating toward lower risk profile customer (thus lower interest charge). Collectively, this has led to a decline in average P2P composite lending rate to c.9.5% in 2017 (figure 3). Average duration of the loans is 9.2 months and is expected to further lengthen as major players continuously tap into longer-term lending.

**Fig 3: Average P2P loan duration and interest rate yield**



Source: Wang Dai Zhi Jia, DBS Vickers

**Fig 4: Policy tightening measures on China's online lending and P2P**

Date	Regulations	Key rules
16-Aug	Interim Measures for the Administration of the Business Activities of Online Lending Information Intermediary Institutions	<ul style="list-style-type: none"> <li>- Individuals / Companies are allowed to borrow a max of RMB 200K / 1mil per platform and RMB 1mil / 5mil in any platforms.</li> <li>- P2P platforms not allowed to take deposits, provide credit guarantee or raising funds for their own use.</li> <li>- Prohibited to sell wealth management products or issue asset backed securities</li> <li>- P2P companies must use third-party banks as custodians of investor funds</li> </ul>
17-Feb	Online lending custody business guidelines	<ul style="list-style-type: none"> <li>- Commercial banks are required as custodians to handle and segregate investor funds</li> <li>- P2P companies are responsible for opening and closing accounts specific to P2P funds custody, capital settlement, accounting verification and supervision over capital</li> </ul>
17-Nov	Circular on Regulating "Cash Loans" Business	<ul style="list-style-type: none"> <li>- Suspension of granting new license to any internet micro-credit company</li> <li>- The composite borrowing cost, in form of interest rate and various fees, should be consistent with the borrowing interest rate required by Supreme People's Court. The stated borrowing rate should be converted to "annualized" rate</li> <li>- Illegal fund raising and absorbing public deposits are not allowed for Internet micro-credit platforms. Transaction or transfer of credit assets via Internet platforms or local exchanges are not allowed. Financing via Internet credit platform is prohibited.</li> <li>- More restriction is given to Internet loan purpose. Loan should not be utilized to "student-loan", "down-payment for property" and investment speculation</li> <li>- Customers information should not be abused and traded illegally</li> </ul>

Source: CBRC, DBS Vickers

**Policy tightening – short-term pain for long-term gain**

The CBRC, the "Special risk rectification office of Internet Financing" and the Association of Internet Financing collectively issued 15 notices in 2017, aiming to minimise the risk, improve credit management and information disclosure and set limitation on lending rates (figure 4). We highlight the more critical measures:

- Individuals/companies are limited to borrow Rmb200k /Rmb1m per platform and collectively Rmb1m/Rmb5m from all platforms
- P2P platforms are restricted to take deposits, provide guarantees, or raise funds for own use
- P2P platforms are restricted to issue asset backed securities
- P2P and online lending platforms need to resort to commercial banks for custodian purposes
- Platforms require new online lending licenses (Nov. 2017). Existing platform need to obtain licence before it can operate
- Composite interest rate is capped within 36% of the annual rate
- P2P platforms need to "file for record" at registered Finance Bureau, CBRC, before end of June 2018

Due to the stricter policies, we believe the P2P and online lending market will continue to consolidate, with illegal and small-scale platforms which lack sufficient credit management

systems and know-how will continue to exit the market.

Ultimately, this is positive to existing, legally operated platforms with strong franchise and risk management know-how such as Lufax.

**Lufax – dominant leader in the fast-growing P2P market**

Lufax is the leading P2P (under Puhui) online wealth management and Financial Asset trading Exchange platform in China. Established in Sep 2011, Lufax incorporated Puhui, a consumer lending business set up in 2005, in 2015. Lufax's total AUM and loans under management reached Rmb476bn and Rmb269bn, respectively, by 3Q17 and outlook remains solid.

Fig 5: Average P2P loan duration and interest rate yield

Lufax's operating matrix	2014	2015	2016	3Q17
<b>Number of users ('000)</b>				
Registered users	5,120	18,310	28,380	32,360
Investor users	350	3,680	8,130	n.a.
Active investor users	340	3,630	7,400	7690
Borrowers (Puhui)	n.a.	1,240	3,770	n.a.
<b>Trading volume (Rmb bn)</b>				
Wealth management*	83	646	1,536	1,609
Institutional trading	168	879	4,200	4,167
New loans (Puhui)	30	48	173	257
<b>Asset/loan under managed (Rmb bn)</b>				
Asset under management	n.a.	251	438	476
Loans under management	n.a.	42	147	269

Source: Wang Dai Zhi Jia, DBS Vickers

Fig 6: Puhai mobile app main page



Source: Ping An, DBS Vickers

Fig 7: Puhai loan offering



Source: Ping An, DBS Vickers

Fig 8: Puhai home equity loan



Source: Ping An, DBS Vickers

Fig 9: Lufax mobile app main page



Source: Ping An, DBS Vickers

Fig 10: Lufax investment solution



Source: Ping An, DBS Vickers

Fig 11: Lufax secondary trading market



Source: Ping An, DBS Vickers

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#### Puhui's loan products at a glance:

Looking at Puhui's mobile app, Puhui offers 5 major loan products (figures 6-8):

- *iLoan*: small loan with maximum credit facility capped at Rmb30k, with loan approval within 3 minutes
- *Home equity loan*: total interest charge and cost can reach as low as 10.7%. Flexible repayment schedule including 6/12/24/36 months. Maximum credit facility capped at Rmb5m. Loan approval within 1 day
- *Oxygen loan*: unsecured loan with maximum credit facility capped at Rmb300k. Loan approval within 1 day
- *Wan Shang loan*: unsecured loan designed for micro-SMEs. Maximum credit facility capped at Rmb300k and approval within 1 day
- *Top up loan*: for existing loan customers

Puhui basically offers 3 categories based on amount: (i) Less than Rmb30k, (ii) Rmb30k to Rmb300k, and (iii) Rmb300k to Rmb5m, and segregates borrower's qualification into 4 types, including (i) owns a property, (ii) owns a car, (iii) holds insurance policies, and (iv) owner of a private enterprise. Since the implementation of "Real name" system for online related registrations was launched in China in 2017 (all identities need to be verified via mobile message), thus the initial borrowers' qualification screening basically requires for the procession of national identity card and bank account for online transactions.

#### Lufax investment products at a glance:

Looking at Lufax's mobile app, Lufax offers 8 major investment products (figures 9-11), which include (i) Fixed income – flexible redeem, (ii) Fixed income – regular type, (iii) "Online lending" products, (iv) Mutual fund, (v) Private equity fund, (vi) Insurance product, (vii) Stocks, and (viii) Secondary market for members to trade its investment assets.

**Fig 12: China's P2P market share by loan outstanding**

Rank	Platform	Expected yield (%)	Average loans maturity (months)	Loans outstanding (RMB m)	Market share
1	Lufax	8.4	34.0	269,193	22.0%
2	IQianjin	10.5	29.0	37,009	3.0%
3	Renrendai	9.8	35.1	26,862	2.2%
4	JBH.com	8.4	6.6	22,601	1.8%
5	Niwodai.com	10.5	18.9	21,318	1.7%
6	Tuandai.com	9.9	12.4	17,731	1.4%
7	Weidai	7.4	4.2	17,706	1.4%
8	Hengyirong	12.5	31.5	17,471	1.4%
9	Yooli	9.7	22.0	16,960	1.4%
10	Dianrong	14.1	29.8	16,556	1.4%
11	YouRongWang	11.4	3.2	16,043	1.3%
12	Eloancn	8.8	10.9	16,024	1.3%
13	Xiaoniu88	10.1	5.5	15,737	1.3%
14	Itouzi	11.0	11.5	13,267	1.1%
15	Xiaoying	7.8	11.1	12,886	1.1%
15	Silver Valley On-line	12.7	29.9	11,488	0.9%
17	Touna.cn	9.8	18.4	9,476	0.8%
18	Jinxin99.cn	9.4	9.1	9,449	0.8%
19	Ppmoney	9.8	5.4	8,309	0.7%
20	Qingyidai.com	8.6	6.5	8,228	0.7%
<b>Top-20 total</b>				<b>584,314</b>	<b>48%</b>

Note: Lufax's loan outstanding based on Ping An  
Source: Wang Dai Zhi Jia, DBS Vickers

#### Lufax versus peers

Based on Wang Dai Zhi Jia, Lufax's P2P market share by loan outstanding has reached 22% (using Rmb269bn loans under management figure in Ping An's 3Q17 financial statement, figure 12). The average interest rate yield has reached the 8.4% level, which is below the industry average of 9.5%. We believe this is due to Lufax's stronger ability to evaluate borrowers' risk profile with its stringent credit scoring system, which enables Lufax to be able to control its borrower's credit risk distribution. With lower credit risk, interest charges are also lower.

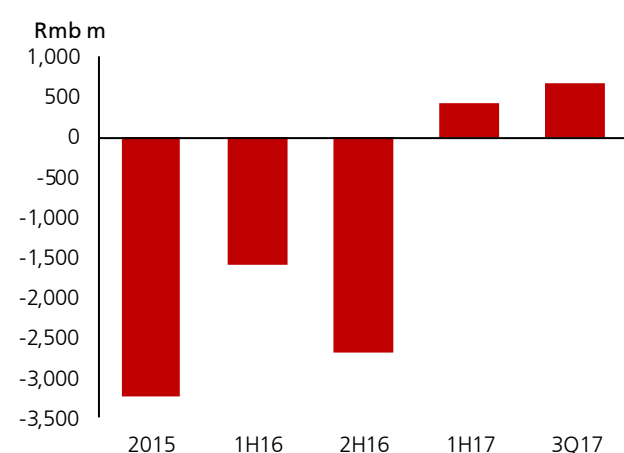
Average loan duration has reached 34 months, versus peers' average of 9.2 months. The duration is considered to be long and we believe this is because 66% of Lufax's loans granted is in the form of secured loans where duration is usually longer with lower credit risk.

The Top 20 P2P platforms in 2017 accounted for 48% of the total market share by loans outstanding. As policies tighten further, we believe industry dynamics will be further consolidated which is positive for the leading players.

### A Rmb10bn+ earnings business

Due to the limited financial data disclosure from Ping An relating to Lufax, investors are left in dark on Lufax's operating performance and earnings potential. Based on Ping An's disclosure from its annual reports and financial statements, Lufax became profitable in 1H17 with its internet financing business earnings collectively reached Rmb675m in 3Q17, up from a loss of Rmb3.4bn in 2015 and loss of Rmb2.7bn in 2016 (exclude the Rmb9.4bn one-off gain from Puhui disposal).

**Fig 13: Lufax's loan under management**

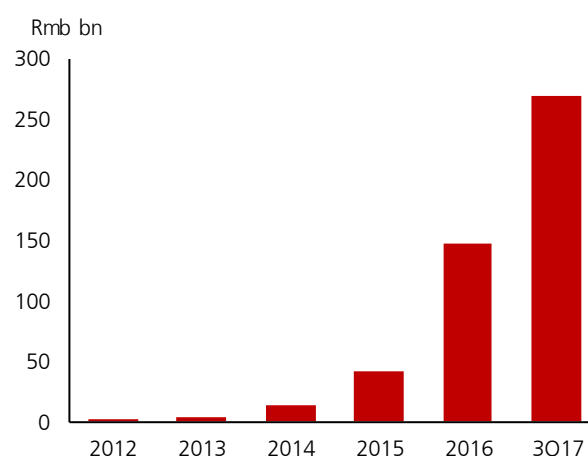


Source: Ping An, DBS Vickers

As Ping An's invested interest in Lufax accounts for 44% of Ping An's total internet financing business (held under Ping An Financial Technology), the turnover and profit in Ping An's internet financing business leads us to believe there has been a dramatic improvement in Lufax's earnings performance and/or operating model.

Lufax's loans under management has witnessed tremendous growth since 2014, posting a 224% CAGR during 2014-16 and likely to grow another 100%+ y-o-y in FY17F (figure 14). We believe Lufax's fast growing loan origination capability has led to further economies of scale and stronger operating leverage, which has enabled Lufax's earnings as well as prospects to improve substantially. In addition, we believe the change in its "full guaranteed" business model due to the new policy requirement of having to rely on third party P&C insurers to provide credit guarantee may also be a possible reason for the significant improvement in its earnings growth (under the previous full guarantee model, Lufax had to set aside risk reserves).

**Fig 14: Lufax's loans under management**



Source: Ping An, DBS Vickers

### More profitable than you think

Based on operating matrix/performance from China's listed P2P platforms such as Hexindai (HX US, NR), PPDai (PPDF US, NR), and Yirendai (YRD US, NR), Lufax's P2P platform's revenue is generated from (i) loan facilitation fee charged on borrowers, and (ii) service fee charged on investors. Applying this to Lufax's loan origination in FY17E, and wealth management trading volume and institutional trading volume generated from its three different platforms, our estimates suggest that based on Lufax's current scale, its earnings has the potential to hit Rmb10bn+ (figure 15). This is equivalent to around 6.5% of Ping An's FY17E profit.

With continuous growth in its loans and trading scale, we expect more operating leverage to kick in, which ultimately will lead to even faster earnings growth. That said, we believe investors may have substantially underestimated Lufax's earnings growth potential.

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Fig 15: China's listed P2P platform and estimate of Lufax's earnings

P&L (unit: Rmb m)	Hexindai *	PPDai	Yirendai	Lufax
Currency	RMB	RMB	RMB	RMB
Financial Year (end)	Mar-17	Dec-16	Dec-16	FY17F
<b>1) P2P business</b>				
<b>Revenue</b>	<b>158</b>	<b>1,216</b>	<b>3,238</b>	<b>29,547</b>
Loan facilitation services	195	911	3,133	28,698
Servicing fees	8	127	84	849
Other revenue (expense)	(46)	177	20	0
<b>Operating expense</b>	<b>(90)</b>	<b>(979)</b>	<b>(2,173)</b>	<b>(18,099)</b>
Sales and marketing	(36)	(353)	(1,571)	(11,059)
Origination and servicing	(35)	(388)	(200)	(389)
Engineering and product development				0
Other general and administrative	(18)	(238)	(402)	(6,650)
<b>Income (loss) from operation</b>	<b>68</b>	<b>237</b>	<b>1,065</b>	<b>11,448</b>
<b>Other income (expense)</b>	<b>1</b>	<b>313</b>	<b>37</b>	<b>0</b>
<b>1) Pre-tax profit under P2P segment</b>	<b>70</b>	<b>550</b>	<b>1,102</b>	<b>11,448</b>
<b>2) Trading Segment</b>				
<b>Revenue</b>				<b>3,034</b>
Wealth management				845
Institutional trading				2,189
<b>2) Pre-tax profit under trading segment</b>				<b>1,225</b>
<b>Total pre-tax profit (1) + (2)</b>				<b>12,673</b>
Tax expense	(10)	(48)	14	(1,901)
<b>Total net profit</b>	<b>59</b>	<b>501</b>	<b>1,116</b>	<b>10,772</b>
<i>* Converted from USD to RMB under USDRMB = 6.89</i>				
<b>Operating data</b>				
<b>1) P2P business</b>				
No. of borrower	28,738	3,376,000	321,019	
No. of investor	63,335	240,000	597,765	
No. of employee	315	6,454	911	
Loan facilitated (Rmb m)	3,399	20,201	20,278	343,279
Commission fee charged on borrower (%)	5.7%	4.5%	15.5%	8.4%
Commission fee charged on investor (%)	0.2%	0.6%	0.4%	0.2%
Origination and servicing / loan originated	1.0%	1.9%	1.0%	1.3%
Sales marketing / operating revenue	22.7%	29.0%	48.5%	37.4%
Other general and administrative	11.5%	19.6%	12.4%	22.5%
<b>2) Trading Segment</b>				
Wealth management trading volume				2,144,776
Institutional trading volume				5,556,043
Transaction fees estimated				0.04%
PBT Margin under trading segment				40.4%

Source: Hexindai, PPDai, Yirendai, DBS Vickers



**Credit data is the key**

We are seeing a trend of internet giants, namely Tencent (700 HK, BUY), Alibaba (BABA US, BUY) and Baidu (BIDU US, NR) collectively known as BAT, also tapping into online financial services, particularly the online lending (individual/Micro-SME/crowd financing) and online wealth management/investment space (figure 18). Due to different business origins and development paths (figure 16-17), we believe each of the BAT giants holds a different niche in their respective areas, for example, Tencent – high MAU (monthly active user) base, Alibaba – most widely used online payment system and e-commerce, and Baidu – Search engine to best observe consumer behaviour. While these internet giants all possess substantial amount of “consumer data”, among which are mainly related to consumer consumption behaviour, we believe the critical set of consumer data is the “credit data”

when it comes to financial services. For online lending business, consumers’ credit data will enable the lender to better assess the risk profile of each borrower, thus enable it to mitigate potential credit risk and conduct more precision pricing based on borrowers’ risk profile. The latter helps to attract low risk borrowers and fend off higher risk consumers. For online wealth management business, the ability to accurately assess investors’ risk tolerance capability helps to direct investors to the appropriate asset class to invest. That said, given Lufax’s 12-year old “credit data” history (Puhui was established in 2005), we see this as a key asset to Lufax and will help the company to secure its leading market position in the online financing service space.

**Fig 16: Ping An business and B.A.T.J business comparison and efforts in insurance business**




Company name	Ping An	Tencent	Alibaba	Baidu	JD.com
Established date	March, 1988	November, 1998	April, 1999	Jan, 2000	Jul, 1998
Market cap (US\$ bn)	207	537	481	88	66
Major Revenue source (latest FY)	<b>Revenue mix:</b> Life insurance = 50% P&C insurance = 22% Banking = 21% Others = 7%	<b>Revenue mix:</b> Value-added services = 71% Online advertising = 18% Others = 11%	<b>Revenue mix:</b> commerce = 85% Cloud computing = 4% Digital media and entertainment = 9% Innovation initiatives and others = 2%	<b>Revenue mix:</b> Search services = 77% Transaction services = 7% iQiyi = 16%	<b>Revenue mix:</b> Online sales - Electronics and home appliances products = 69% Online sales - Electronics and home appliances product = 22% Services and others = 9%
Active User Statistics	<b>Monthly activer users = 65.31m (1H17)</b> Number of Internet users: 403m(1H17)  <b>Fintech platforms:</b> Lufax: registered users: 31m(1H17) Heathcare (Ping An Good Docotor+Wanjia Clinic): registered users 180m/ MAU = 5m Autohome: DAU = 32m E-wallet: MAUs 6.5m+ (FY16)	<b>Monthly active users (Weixin and Wechat) = 962.8m (1H17)</b>  QQ MAU = 850.1m Qzone MAU = 605.8m Mobile Payments (including both Weixin Pay and QQ Wallet) monthly active users = 600m+ (4Q16)	<b>Mobile monthly active users = 529m (Jun 17)</b>  Annual active customers = 466m (Jun 17) Alipay annual active users = 520m (Mar 17) Ant insurance Service annual active users = 392m (Mar 17) Financing under 花呗, 借呗 annual activer users= 100m(Mar17)	<b>Mobile search monthly active users = 665m (FY16)</b>  Mobile Map MAU = 341m (FY16) Baidu Wallet activated accounts: 100m (FY16)	<b>Annual active customer accounts = 258m (1H17)</b>
Effort in insurance service	- Traditional Life insurance and P&C insurance; Profit from Life+P&C accounts for 71% of Ping An Group profit as of 3Q17 - Owned online insurance Zhongan 12.1%	- Weimin Insurance Agency (WeSure) - Owned online insurance Zhongan 12.1% - 20% stake in Aviva Hong Kong - 15% stake in Hetai Life Insurance	- Ant Insurance Service - Owned online insurance Zhongan 16% - Set up JV with China Taiping targeting online health insurance - Ant Financial owns 51% stake in Cathay Insurance (China) - Ant financial owned stake Trust Mutual Life - Ant financial acquired stakes in MassMutual Asia - Owned Hangzhou Baojin Insurance Agency Company (Insurance agency)	- Bai-An insurance (JV of Baidu, Hillhouse Capital and Allianz) - Heilongjiang Lianbao Longjiang insurance brokerage (Insurance broker)	- JD insurance (insurance selling platform) - Planning to set up a P&C insurance company
FY17F Net profit (US\$ bn)	11.7	10.0	13.3 (under end-Mar FY18)	3.0	0.8
ROE (%) - latest FY	17.4%	27.9%	17.6%	13.5%	-11.8%
Forward PB (x)	2.3	10.87	6.6	4.31	8.62
Forward PE (x)	13.3	40.56	27.5	26.8	54.3

Source: Company data, DBC Vickers

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Fig 17: Ping An and BATJ's major milestones and development phases

	 中国平安 PING AN	 Tencent 腾讯	 Alibaba.com	 百度 Baidu	 京东 JD.com
Early stage of establishment From establishment to year 2000	<p><b>Starting from insurance business.</b></p> <p><b>1988:</b> - Ping An, a first joint-stock, local insurance company established</p> <p><b>1990 - 1994:</b> - Annual premium income exceeded RMB 1bn - Ping An became the first insurance company in China to be invested by foreign shareholders (JP Morgan and Goldman Sachs)</p> <p><b>1995 - 2000:</b> - Established Ping An securities and Ping An Trust. - Ping An's annual premium exceeded RMB 10bn - Ping An e-commerce platform PA18 was launched.</p>	<p><b>Starting from instant messaging software</b></p> <p><b>1998:</b> - Tencent established</p> <p><b>1999:</b> - Launched instant messaging service - QQ</p> <p><b>2000:</b> - Mobile QQ launched</p>	<p><b>Starting from B2B e-commerce business</b></p> <p><b>1999:</b> - Alibaba.com established as a global wholesale market place</p>	<p><b>Starting from online network technology</b></p> <p><b>2000:</b> - Baidu was co-founded by Robin Li</p>	<p><b>Starting from distribution of magneto-optical products</b></p> <p><b>1998:</b> - JD. Multimedia established</p>
Developing stage Utilising internet network Year 2001 - 2009	<p><b>Developing into a financial conglomerate and starting to invest into online and tech</b></p> <p><b>2001 - 2009:</b> - Ping An's first e-commerce platform PA18 was launched. - HSBC subscribed 10% of Ping An's total shares - Ping An Trust acquired Fujian Asia Bank and renamed it as Ping An bank - Listed in Hong Kong and Shanghai Stock Exchange - Annual premium exceeded RMB 100bn - Rolled out One-Account "一账通" offering one-stop comprehensive financial services - Ping An tried to combine healthcare and insurance by opening first medical clinic "宜康医疗" in Guangzhou</p>	<p><b>Extending to online gaming business</b></p> <p><b>2001 - 2009:</b> - South African media company Naspers purchased a 46.5% share of Tencent in 2001 - Launched web portal - www.QQ.com - Entered online games market (2003) - Listed in Hojng Kong Stock Exchange - Involved in large-scale online games (穿越火线) and (地下城与勇士) - Annual revenue exceeded RMB 10bn</p>	<p><b>Extending to B2C business</b></p> <p><b>2001 - 2009:</b> - Alibaba.com surpasses 1 million registered users - Taobao marketplace was founded (2003) - Alibawang (instant messaging tool) established to facilitate communication between buyer and seller. - Alipay established as a third party online payment platform (2004) - Alibaba took over China Yahoo! - Alibaba.com completed IPO in HK - Taobao Mall (Tmall), dedicated platform for 3rd party brands and retailers, introduced (2008) - Alibaba cloud established</p>	<p><b>Developing search engine</b></p> <p><b>2001 - 2009:</b> - Launched news search engine - Baidu completed initial public offering on NASDAQ under the symbol "BIDU" - Baidu launched the online marketing system Phoenix Nest</p>	<p><b>Developing B2C business and online mall</b></p> <p><b>2001 - 2009:</b> - Began to sell products online - Closed his brick-and-mortar store and moved his business online. www.jd.com, the earliest online predecessor of JD.com was launched - Began to build out the company's proprietary logistics network. D's aim was to ensure a superior customer experience. - JD Mall began offering general merchandise, transforming the business from an electronics retailer to a full-fledged e-commerce platform</p>
Fintech initiative emergence Year 2010 - 2014	<p><b>Starting fin-tech P2P, penetrating into auto &amp; housing segment and rolling out E-wallet "零钱包"</b></p> <p><b>2010 - 2014:</b> - Ping An launched Puhui extending consumer loans in Shenzhen (2005) - P&amp;C products started selling in Taobao. Offered mobile channel for customers to purchase insurance - Set up Lufax and started p2p lending business (2011) - Created e-commerce platform "平安好车", aiming to provide financial products in used cars market (2013) - Ping An Fin-tech signed strategy agreement with eBay which Ping An offered financing solutions to seller in eBay. - Payment platform "E-wallet" approved for investment funds sales and settlement licences. - "E Wallet" was updated to include investments "活钱宝", financing "借钱宝", communications. - Launched housing platform pinganfang.com "平安好房网" offering mortgage service</p>	<p><b>The instant messaging platform getting more mature and rolling out Licaotong "微信理财通"</b></p> <p><b>2010 - 2014:</b> - QQ's PCU surpassed 100 million - Launched open platform strategy - Launched Weixin (2011) - Mobile QQ and Weixin launched game centers - Registered users accounts of Weixin &amp; WeChat reached 300 million - Established healthcare platform WeDoctor (2010) - Max online users in QQ reached 200ml - Rolled out Weixin Licaotong "微信理财通" (2014) - Became JD.com shareholder</p>	<p><b>Breaking into mobile channel and rolling out Yu'e Bao (余额宝)</b></p> <p><b>2010 - 2014:</b> - AliExpress launched to enable exporters in China to reach and transact with consumers - Mobile Taobao App launched (2010) - Established Cainiao Network together with a consortium of logistics companies - Rolled out Yu'e Bao "余额宝" in Jun 2013 - Established a JV with Intime to develop an O2O business in China - Listed in New York Stock Exchange - Ant Financial Services Group established (2014)</p>	<p><b>Expanding the business through M&amp;A and launching Baidu Wallet "百度钱包"</b></p> <p><b>2010 - 2014:</b> - Baidu established a new independent company Qiyi (currently known as Qiyi), an online video platform through joint venture with Providence Equity Partners - Baidu acquired a majority stake in Qunar - Acquired equity interest in 91 Wireless from NetDragon. 91 wireless runs two major smartphone app distribution platforms for iOS and Android systems - Acquired a 59% equity interest in Nuomi "糯米" from Renren - Baidu launched Baidu Wallet "百度钱包"</p>	<p><b>Expanding into a mature online marketplace and penetrating into Fintech</b></p> <p><b>2010 - 2014:</b> - JD launched its online marketplace platform, which enabled the company to expand the range of product choices for consumers. (2010) - JD recorded GMV of RMB 100bn - JD Finance was established as an independent business group (2013) - Formed a strategic partnership with Tencent, giving JD exclusive access to Tencent's WeChat and Mobile QQ platforms - Became China's first major e-commerce company to list on New York's NASDAQ stock exchange - JD Finance launched China's largest crowdfunding platform</p>
Fintech development stage Incorporating into own business Year 2015 - Present	<p><b>Strengthening QianHai Credit database and E-wallet functionality</b></p> <p><b>2015 - Present:</b> - Ping An Good Doctor was rolled out with 10ml registered users as of Jul 2015 - QianHai Credit announced strategic co-operation with Union-pay strengthening its credit database - Ping An Caifubao was outperforming its peers as the balance of An Ying and Huo Qi Ying exceeded RMB5,000 million and RMB20,000 million respectively - Ping An Puhui app merged with E-wallet, and launched a new app version. After merging 8.95 million registered accounts, app usage by new customers reached 95% and monthly active users exceeded 1.7 million. - Registered users of Ping An Caifubao exceeded 5ml</p>	<p><b>Establishing credit database "腾讯信用" and internet banking platform "WeBank"</b></p> <p><b>2015 - Present:</b> - Established internet bank WeBank (2014) - mobile payment accounts exceeded 200 million - Established Tencent Credit "腾讯信用" - Acquired 5.21% stake in OCC - Teamed up with Intel for blockchain tech - Partnering with Bank of China on blockchain technology in financial applications</p>	<p><b>Establishing credit database "芝麻信用" and internet banking platform "MyBank"</b></p> <p><b>2015 - Present:</b> - Established internet bank MyBank (2015) - Established Sesame Credit "芝麻信用" - Alibaba and Suning entered into a strategic alliance to build on synergies in e-commerce, logistics and O2O initiatives - Established Alibaba Sports group with Sina Corp and Yunfeng Capital - Alibaba exceeded RMB 3tr in FY2016 GMV on its China retail marketplaces - Acquired controlling stake in Lazada, a leading e-commerce platform in SE Asia</p>	<p><b>Establishing internet bank "Baixin Bank"</b></p> <p><b>2015 - Present:</b> - Daily active users of Mobile Baidu search app reached 100 million; daily Baidu universal logins reached 100 million - Set up Internet Bank Baixin Bank with Citic Bank (2015) - Invested in ZestFinance, a big data firm specializing in credit scoring. - Baidu Maps celebrated its 10th anniversary; monthly active users reached 302 million - Mobile revenue reached 50% of total revenue</p>	<p><b>2015 - Present:</b> - JD Finance launched China's largest private equity financing service to help attract investment for start-ups - Entered a JV with US-based Fin-tech ZestFinance to provide credit assessment services (2015) - JD.com and Walmart announced a strategic alliance and agreed to a number of different areas of cooperation covering the online and O2O areas of the two companies' businesses in China.</p>

Source: Company data, DBS Vickers

Fig 18: Ping An and BATJ's business arms in online financial service and healthcare space

	中国平安 PING AN	Tencent 腾讯	Alibaba.com	Baidu 百度	JD 京东 JD.COM
Payment	Est. / Acqn. Year 2014 	2013 	2004 	2014 	2014 
Personal / SME borrowing	Est. / Acqn. Year 2010 / 2011  LUP2P.COM	2011  微粒贷 微业贷	2015  蚂蚁花呗 ANT CHECK LATER	2013 	2013 / 2014  京东白条
Crowd-funding	Est. / Acqn. Year 2015  ZHONG.COM	N/A 	2015  ANTSDAQ	2016 	2014 
Saving and investment	Est. / Acqn. Year 2011  Lufax.com	2014 	2013 	2013 	2014 
Wealth / fund management	Est. / Acqn. Year 2011  Lufunds.com	2014 	2013  TIANHONG (collaborated with Alipay in 2013)	2013 	2014 
Banking platform	Est. / Acqn. Year 2003  PING AN BANK	2014  微众银行	2015  MYbank	2015  aiBank	
Credit Assessment	Est. / Acqn. Year 2013  QIAN HAI ZHENG XIN 信用·让你我更好互联	2015 	2015  SESAME CREDIT	2016 	2016 
Healthcare	Est. / Acqn. Year 2014 / 2016  W 万家 连锁健康服务平台	2010  WE DOCTOR GROUP	2015  阿里健康	2014  (suspended in 2017)	
Cloud service	Est. / Acqn. Year 2013 	2010 	2009 	2012 	2012  JCloud.com
Artificial Intelligence & Bio-metrics	Ping An Technology AI Lab PA biometrics	Tencent AI Lab 	Ali A.I. Labs 阿里人工智能实验室 smile to pay	Baidu 大脑 ai.baidu.com BFR (Baidu Face Recognition)	

Source: Company data, DBS Vickers

## Industry Focus

### China Fintech Sector

#### Blue sky scenario – Ping An's fair value to reach HK\$126

Our base case scenario to evaluate Lufax's fair value is to separately value its 3 platform businesses, namely (i) Puhui, (ii) Lufax, and (iii) Financial asset exchange (figure 19) pegged to their respective peer group comparables. The loan origination and asset under management numbers are based on Ping An's 3Q17 financial statement (with loan under management at Rmb269bn and asset under management at Rmb476bn). We thus derive a fair value for Lufax of Rmb354bn (or US\$55bn), and this implies a fair value of HK\$100 for Ping An (figure 20). Our blue-sky scenario assumes (i) Lufax's loan origination will grow by 80%/60% in FY18F/FY19F, (ii) Wealth management and institutional trading business will grow 20% y-o-y in FY18F and FY19F, (iii) Average commission charged to borrowers to decline by 10bps y-o-y in each of FY18F and FY19F, and (iv) attach a 0.8x PEG multiple to derive its blue-sky fair value based on FY19F earnings.

Under the blue-sky scenario, our estimates suggest Lufax's fair value could reach Rmb1.47tn (or US\$229bn), and the implied fair value for Ping An is HK\$126/share (figure 21). As such, we suggest investors to stay positive on Ping An, particularly ahead of Lufax's upcoming IPO.

**Fig 19: Estimated fair value of Lufax – base case**

Unit: Rmb bn	Asset under managed/transacted	Market multiple (x)	Estimated market value	Remark
a. Puhui	269	0.88	235	Consumer finance; Resemble P2P platform business model
b. Lufax	476	0.15	70	Online wealth management platform; Resemble to asset management company business model
c. Shenzhen Qiaohai Financial Asset exchange	4,167	0.01	49	Integrated Financial Solutions for China government; Resemble brokerage business model
Total estimated value			354	
% owned by Ping An			43.8%	
<b>Estimated Lufax fair value to Ping An</b>			<b>155</b>	

Source: DBS Vickers

**Fig 20: Ping An's fintech platform estimated fair value and per share value – base case**

Ping An Fintech platform	% owned	Estimated fair value (Rmb m)	% of total	Remark
Lufax	44%	155,084	60%	Breakdown into Puhui, Lufax and Financial Asset exchange
E-Wallet	77%	10,902	4%	Based 6.8x FY16 book value and inline with e-commerce peer's average
Ping An Good Doctor	58%	11,543	4%	Based on June 2016 fund raising which valued at US\$3bn
One Connect	100%	47,393	18%	FI trading volume 2x as Lufax/financial product transaction 1/6 of Lufax
Autohome	47%	21,462	8%	Based on market cap of US\$6,569m as of 1 Dec. 2017
Pingan Haofang	87%	3,699	1%	Based 6.8x FY16 book value and inline with e-commerce peer's average
Ping An Financial Technology	100%	9,964	4%	Based 6.8x FY16 book value and inline with e-commerce peer's average
Sub-total		260,047		
Per share value (Rmb)		14.2		
<b>Per share value (HK\$)</b>		<b>16.2</b>		
<b>Implied Ping An TP (HK\$)</b>		<b>100.0</b>		

Source: DBS Vickers

**Fig 21: Ping An's fintech platform estimate fair value and per share value – bull case**

Ping An Fintech platform	% owned	Estimated fair value (Rmb m)	% of total	Remark
Lufax	44%	644,972	86%	Blue-sky earnings scenario in FY19F; Refer 0.8x PE/G ratio
E-Wallet	77%	10,902	1%	Based 6.8x FY16 book value and inline with e-commerce peer's average
Ping An Good Doctor	58%	11,543	2%	Based on June 2016 fund raising which valued at US\$3bn
One Connect	100%	47,393	6%	FI trading volume 2x as Lufax/financial product transaction 1/6 of Lufax
Autohome	47%	21,462	3%	Based on market cap of US\$6,569m as of 1 Dec. 2017
Pingan Haofang	87%	3,699	0%	Based 6.8x FY16 book value and inline with e-commerce peer's average
Ping An Financial Technology	100%	9,964	1%	Based 6.8x FY16 book value and inline with e-commerce peer's average
Sub-total		749,935		
Per share value (Rmb)		41.0		
<b>Per share value (HK\$)</b>		<b>46.8</b>		
<b>Implied Ping An TP (HK\$)</b>		<b>126.0</b>		

Source: DBS Vickers

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DBSVHK recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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