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Equity Research

Huize Holding Limited

Earnings Review

Robust quarter driven by surging demand, but off-season headwinds still ahead, maintain Buy

Robust quarter results driven by surging demand in peak season

Huize reported robust Q1'21 results during the insurance peak season. Coupled with the surging demand before a new statutory definition of critical illness at the end of January, Huize's GWP grew strongly by 133.1% YoY to a record of RMB1.4bn, among which the first-year premium (FYP) jumped by 221.8% YoY to RMB889.8mn and accounted for 63.8% of total GWP. Total revenue was RMB735.0mn, up 195.5% YoY/89.4% QoQ and implying a 52.6% take rate (vs 36.9%/41.4% in Q4'20/Q1'20), thanks to a higher proportion of FYP. Boosted by strong revenue growth, opex ratio declined substantially, and therefore adj. net profit came in at RMB38.7mn, up 74.5% YoY. The second quarter revenue was guided to the range of RMB230mn to RMB250mn and we expect its revenue will grow by 47.1% YoY in the full year of 2021E.

Enriching product lineups to explore more growth potential

In Q1, Huize added approx. another 200k new insurance clients, among which 73.2% were from higher-tier cities. The cumulative number of insurance clients served reached approx. 7.0mn and the cumulative number of insured clients was 58.4mn as of March 31, 2021. On the product side, Huize offered 138 differentiated tailor-made products, which contributed 61% of total GWP in Q1. The well-known critical illness insurance product, "Darwin No.3", achieved RMB320mn GWP in Q1. In addition, Huize continues to enrich its product lineups to explore more growth potential. Saving and annuity products, which was introduced in Q4 of 2020, contributed approx. 18.6% of total FYP this quarter. At the same time, about 39% of savings product customers have purchased more than one policies with Huize. Therefore, the average ticket size for LT policy was around RMB4,500 this quarter compared to RMB3,100 in the full year of 2020.

Operating leverage improving, but off-season headwinds ahead

The seasonally strong revenue performance this quarter outweighed spending, as a result, opex ratio declined substantially to 20.4% vs 32.1%/41.5% in Q4'20/Q1'20, respectively, and operating income turned a profit again, indicating a great improvement in operating efficiencies. However, to capture more market share during the peak season, Huize raised the commission rate of the insurance consultants this quarter, which was therefore dilutive to the gross margin. We see the trend will continue in the next few off-season quarters, hence, we lower our gross margin outlook of FY21E and our PT to US\$8.7 on 5x FY21E P/GP. Nevertheless, as a leading online insurance platform aiming to provide frictionless experience for customers, Huize's LT growth story is still intact and we maintain Buy rating on Huize.

Risks

Key risks to our PT include: 1) new client acquisition difficulties in a cost-efficient manner; 2) failure to cooperate with registered user traffic channels; 3) uncertainty in regulations and rules applicable to the online insurance industry.

Stock code: HUIZ.US

Rating: Buy

Price target (US\$)	8.7
Previous price (US\$)	10.7
Current price (US\$, 8 June 2021)	6.0
Total upside/downside %	47%
Market cap (US\$ m)	309
Avg daily turnover (US\$ m)	6

Source: Bloomberg, AMTD research estimates

Key forecasts

(RMB m)	2019	2020	2021e	2022e
Acc. clients (mn)	6.3	6.8	7.3	7.9
yoy %	19%	8%	8%	8%
GWP	2,014	3,020	4,530	7,202
yoy %	114%	50%	50%	59%
Revenue	993	1,220	1,795	2,294
yoy %	95%	23%	47%	28%
Core net profit	110	34	(21)	98
yoy %	2567%	-69%	n.a.	n.a.
Core NPM	11%	3%	-1%	4%

Source: Company data, AMTD research estimates

Valuation

	FY19	FY20	FY21e	FY22e
P/S	2.0	1.6	1.1	0.9
P/E (adjusted)	5.5	4.9	4.3	3.0
EV/EBITDA	54.0	62.9	n.a.	20.6
ROE	12.6	36.5	n.a.	13.7

Source: Bloomberg, AMTD research estimates

Share price performance (US\$)



Source: Bloomberg

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Financials

Figure 1: Huize's quarterly operating data

Operating data	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21
Insurance clients served (mn)	0.4	0.2	0.2	0.3	0.3	0.4
Acc. insurance clients served (mn)	6.3	6.4	6.5	6.7	6.8	7.0
First-year GWP/net Δ client served (RMB)	1,460	2,766	3,197	1,791	6,136	4,449
GWP ('000 RMB)						
first-year	437,900	276,550	319,700	358,100	613,550	889,800
renewal	204,600	321,350	276,300	420,900	433,450	504,000
Total	642,500	597,900	596,000	779,000	1,047,000	1,393,800
GWP mix %						
first-year	68%	46%	54%	46%	59%	64%
renewal	32%	54%	46%	54%	41%	36%
take rate %	39%	41%	39%	45%	37%	53%

Source: Company data, AMTD Research estimates

Figure 2: Huize' quarterly P&L (RMB '000)

P&L	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21
Brokerage income	253,607	247,689	234,177	346,773	386,795	732,630
- L&H insurance	242,707	237,534			368,616	701,127
- P&C insurance	10,900	10,155			18,179	31,503
Other income	4,656	1,004	828	1,677	1,279	2,351
Total operating revenue	258,263	248,693	235,005	348,450	388,074	734,981
Revenue mix %						
Brokerage income	98.2%	99.6%	99.6%	99.5%	99.7%	99.7%
- L&H insurance	94.0%	95.5%	0.0%	0.0%	95.0%	95.4%
- P&C insurance	4.2%	4.1%	0.0%	0.0%	4.7%	4.3%
Other income	1.8%	0.4%	0.4%	0.5%	0.3%	0.3%
Cost of revenue	(159,913)	(147,796)	(139,849)	(234,658)	(291,204)	(556,696)
Other cost	(523)	(919)	(616)	(649)	(662)	(771)
Operating costs	(160,436)	(148,715)	(140,465)	(235,307)	(291,866)	(557,467)
Gross Profit	97,827	99,978	94,540	113,143	96,208	177,514
Gross margin	37.9%	40.2%	40.2%	32.5%	24.8%	24.2%
S&M	(61,815)	(52,954)	(48,118)	(57,857)	(71,509)	(76,976)
as % of rev	23.9%	21.3%	20.5%	16.6%	18.4%	10.5%
G&A	(34,532)	(38,987)	(43,476)	(30,475)	(37,269)	(54,061)
as % of rev	13.4%	15.7%	18.5%	8.7%	9.6%	7.4%
R&D	(11,825)	(11,187)	(10,627)	(11,478)	(15,843)	(18,833)
as % of rev	4.6%	4.5%	4.5%	3.3%	4.1%	2.6%
Operating expenses	(108,172)	(103,128)	(102,221)	(99,810)	(124,621)	(149,870)
opex ratio	41.9%	41.5%	43.5%	28.6%	32.1%	20.4%
EBIT	(10,345)	(3,150)	(7,681)	13,333	(28,413)	27,644
EBIT margin	-4.0%	-1.3%	-3.3%	3.8%	-7.3%	3.8%
Total Financial Costs	75	(413)	(206)	(193)	(345)	(220)
Investment income	43	0	0	137	0	241
Unrealized exchange income/(loss)	(3)	(33)	(5)	0	29	(2)
Other gains/losses & others - Net	2,456	1,086	4,897	3,278	916	2,638
Profit Before Income Taxes	(7,774)	(2,510)	(2,995)	16,555	(27,813)	30,301
Income Tax Expense (Benefit)	319	(88)	(731)	(1,794)	845	(1,529)
Share of results of equity investment	(90)	299	0	(67)	7	(251)
Minority/Non Controlling Interest	0	0	0	0	0	0
Net Income	(7,545)	(2,299)	(3,726)	14,694	(26,961)	28,521
Adj. net profit	6,072	22,199	14,102	20,413	(22,753)	38,748

Source: Company data, AMTD Research estimates

Figure 3: Huize's P&L (RMB' 000)

P&L	2018A	2019A	2020A	2021E	2022E
Brokerage income	503,547	982,124	1,215,434	1,789,349	2,287,903
Other income	5,281	11,195	4,788	5,267	5,688
Total operating revenue	508,828	993,319	1,220,222	1,794,616	2,293,591
Revenue mix %					
Brokerage income	99.0%	98.9%	99.6%	99.7%	99.8%
Other income	1.0%	1.1%	0.4%	0.3%	0.2%
Cost of revenue	(316,397)	(629,531)	(813,507)	(1,327,404)	(1,634,377)
Other cost	(1,905)	(1,837)	(2,846)	(2,988)	(3,138)
Operating costs	(318,302)	(631,368)	(816,353)	(1,330,392)	(1,637,515)
Gross Profit	190,526	361,951	403,869	464,223	656,077
Gross margin	37.4%	36.4%	33.1%	25.9%	28.6%
S&M	(94,613)	(164,665)	(230,438)	(278,165)	(325,690)
as % of rev	18.6%	16.6%	18.9%	15.5%	14.2%
G&A	(46,177)	(161,816)	(150,207)	(197,408)	(217,891)
as % of rev	9.1%	16.3%	12.3%	11.0%	9.5%
R&D	(24,944)	(33,831)	(49,135)	(59,222)	(68,808)
as % of rev	4.9%	3.4%	4.0%	3.3%	3.0%
Operating expenses	(165,734)	(360,312)	(429,780)	(534,796)	(612,389)
EBIT	24,792	1,639	(25,911)	(70,572)	43,688
EBIT margin	4.9%	0.2%	-2.1%	-3.9%	1.9%
Total Financial Costs	(27,111)	(190)	(1,157)	(1,157)	(1,157)
Profit Before Income Taxes	1,896	15,205	(16,763)	(59,601)	54,659
Income Tax Expense (Benefit)	(278)	(57)	(1,768)	2,980	(2,733)
Net Income	3,152	14,902	(18,292)	(56,621)	51,926
Adj. net profit	4,119	109,860	33,961	(20,729)	97,798
Adj. NPM	0.8%	11.1%	2.8%	-1.2%	4.3%
Adj. EPS (RMB) - ADS		4.933	0.662	(0.398)	1.850
Adj. EPS (USD) - ADS		0.705	0.095	(0.057)	0.264

Source: Company data, AMTD Research estimates

Figure 4: Huize's P&L, YoY

YoY %	2018A	2019A	2020A	2021E	2022E
Insurance clients served (mn)	45.1%	-29.2%	-15.9%	14.9%	8.0%
Acc. insurance clients served (mn)	43.2%	18.9%	7.9%	7.8%	7.9%
First-year GWP/net Δ client served (RMB)	#DIV/0!	212.7%	114.0%	43.6%	15.0%
GWP (RMB '000)					
first-year	40.6%	95.4%	7.0%	52.2%	25.8%
renewal	126.8%	187.1%	164.5%	47.7%	95.8%
Total	52.4%	114.1%	49.9%	50.0%	56.1%
Brokerage income	100.2%	95.0%	23.8%	47.2%	27.9%
- L&H insurance	179.3%	143.3%	29.1%	49.0%	28.5%
- P&C insurance	11.6%	-40.0%	-37.3%	5.0%	7.0%
Other income	-55.2%	112.0%	-57.2%	10.0%	8.0%
Total operating revenue	93.2%	95.2%	22.8%	47.1%	27.8%
Cost of revenue	92.0%	99.0%	29.2%	63.2%	23.1%
Other cost	-0.7%	-3.6%	54.9%	5.0%	5.0%
Operating costs	91.0%	98.4%	29.3%	63.0%	23.1%
Gross Profit	97.1%	90.0%	11.6%	14.9%	41.3%
S&M	-9.9%	74.0%	39.9%	20.7%	17.1%
G&A	10.3%	250.4%	-7.2%	31.4%	10.4%
R&D	-50.2%	35.6%	45.2%	20.5%	16.2%
Operating expenses	-15.9%	117.4%	19.3%	24.4%	14.5%
EBIT	-124.7%	-93.4%	n.a.	n.a.	n.a.
Total Financial Costs	-4239.1%	-99.3%	508.9%	0.0%	0.0%
Profit Before Income Taxes	-101.9%	702.0%	n.a.	n.a.	n.a.
Income Tax Expense (Benefit)	-31.5%	-79.5%	3001.8%	n.a.	n.a.
Net Income	-103.2%	372.8%	n.a.	n.a.	n.a.
Adj. net profit	-104.3%	2567.2%	-69.1%	n.a.	n.a.

Source: Company data, AMTD Research estimates

Valuation

Figure 5: Huize's valuation summary

('000 RMB)	
2021E total revenue	1,794,616
Gross margin	26%
Gross profit	464,223
EV/21E gross profit multiple	5.0x
FY20E-21E gross profit growth	15%
Enterprise value	2,321,117
(+) Cash and short-term investments	768,510
(-) Noncontrolling interests	0
(-) Total debt	179,400
Implied equity value- Dec 2021 ('000 RMB)	2,910,227
Implied equity value - Dec 2021 ('000 USD)	454,723
No. of shares (thousands)	52,088
Valuation per share (USD)	8.7

Source: AMTD Research estimates, assuming USD/CNY of 6.39

Comparables

Figure 6: Comparables

Date	6/8/2021	Price (LC)	Mkt cap (USD mn)	Sales growth				P/GP			P/E PEG			
				FY20	FY21E	FY22E	'20-21E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	'20-21E
HUIZ US	HUIZE HOLDIN-ADR	5.95	309	1.7x	1.1x	0.9x	53%	5.1x	4.2x	3.0x	25.9x	n.a.	64.7x	n.a.
GOCO US	GOHEALTH INC-A	11.42	3,667	4.2x	3.0x	2.3x	42%	5.7x	3.7x	2.9x	36.5x	16.8x	10.7x	0.1x
SLQT US	SELECTQUOTE INC	21.74	3,552	4.1x	2.7x	2.2x	50%	5.9x	3.9x	3.1x	25.1x	17.3x	13.1x	0.4x
EVER US	EVERQUOTE INC-A	34.43	991	2.9x	2.3x	1.9x	29%	3.1x	2.4x	2.0x	n.a.	n.a.	202.5x	n.a.
Mean:				3.7x	2.7x	2.1x	40%	4.9x	3.3x	2.7x	30.8x	17.1x	75.4x	0.3x
Median:				4.1x	2.7x	2.2x	42%	5.7x	3.7x	2.9x	30.8x	17.1x	13.1x	0.3x

Priced as of 8 Jun 2021; Source: Bloomberg, *AMTD Research Estimates for AMTD Coverage Stocks

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Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
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