EDISON

Spotlight – Update

AGBA Group Holding

Financial services

18 September 2023

Forecasts lowered but momentum maintained

AGBA generated sales of US$28.4m in H123, 361% higher than in H122, as it continued to onboard agents and COVID-19 restrictions were relaxed. Compared to Q123, revenue increased by 54% as AGBA continued to benefit from the reopening of the Hong Kong-China border in February and the Chinese economy. Despite the positive momentum, AGBA has reduced its forecasts for each consecutive year to 2026 because of the slower-than-expected revival of the Chinese and Hong Kong economies so far in 2023. It still projects double-digit growth in subsequent years and expects to capitalise on increasing travel to Hong Kong from Mainland Chinese looking for high-quality health and wealth products.

US$50m equity purchase agreement to fuel growth

On 8 September, AGBA entered into a US$50m equity purchase agreement with Williamsburg Venture Holdings, a New York-based private investment fund. The agreement is over a 36-month period and will allow the fund to purchase up to US$50m in AGBA ordinary shares. The investment will provide further headroom to fund cash requirements until projected profitability in 2025. In addition, this year AGBA also expanded its footprint into Singapore, partnering with HSBC Life to distribute one of its life insurance products, and has been included as a constituent stock on the MSCI Global Micro-Cap Index (see 'Positive newsflow year to date' on page 4).

Profitability delayed to 2025

The rebound in the Chinese economy after reopening after COVID has not been as rapid as expected and GDP growth forecasts have been lowered. Despite this, China's GDP growth remains robust with the International Monetary Fund forecasting 5.2% growth. AGBA has lowered its sales estimates for 2023 from US$160m to US$103m and has further decreased its sales estimates for each subsequent year to 2026. It has delayed positive PBT expectations (US$37m) to 2025 and now projects a small US$10m loss in 2024.

Valuation: Internal valuation suggests upside

AGBA has no direct peers due to the diversity of its business. In conducting its own peer valuation, AGBA has aggregated a list of business that operate in similar industries, from insurance brokers to companies classified as Chinese fintech firms. The mean EV/sales ratio of these businesses is 4.8x, far higher than AGBA's 0.4x.

Historical financials

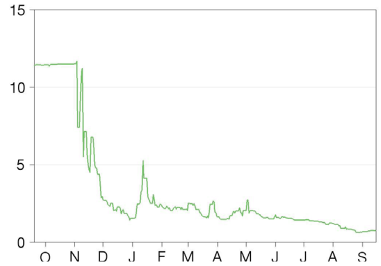
Year end	Revenue (US$m)	PBT (US$m)	EPS* (US$)	DPS (US$)	P/E (x)	Yield (%)
12/19	N/A	N/A	N/A	N/A	N/A	N/A
12/20	N/A	N/A	N/A	N/A	N/A	N/A
12/21	11.5	120.0	1.74	N/A	0.43	N/A
12/22	31.1	(44.4)	(0.79)	N/A	N/A	N/A

Source: AGBA. Note: *EPS is diluted.

Price	**$0.75**
Market cap	**$51m**

HK$7.84/US$

Share price graph



Share details

Code	AGBA
Listing	Nasdaq
Shares in issue	67.5m
Cash at 30 June 2023	US$3.8m

Business description

AGBA Group Holding is a diversified financial services company operating out of Hong Kong. AGBA distributes health and wealth products to over 400,000 retail and corporate clients through its extensive independent financial advisor network, which is the largest in Hong Kong. It holds several investments in fintech start-ups, notably selling its holding in Nutmeg to JP Morgan in June 2021.

Bull

- Core technology platform allows for implementation of selective cost-saving strategy.
- Superior product quality and diversity in Hong Kong drives demand from Mainland China.
- Strong investor base. Richard Tsai of Fubon Financial Holdings is a majority shareholder. AGBA recently entered into a US$50m equity purchase agreement over a 36-month period.

Bear

- Low free float of 16.5%.
- China's GDP growth less than expected.
- Sales from Mainland China rely on customers travelling to Hong Kong and are limited to the amount of cash they can bring across the border.

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H123 summary: Costs outweigh sales growth

AGBA grew its H123 sales by 361% to US$28.4m, which it attributes to the substantial increase in commissions earned as it benefited from onboarding agents and the reopening of China's and Hong Kong's economy and borders (see Exhibit 1). Sales increased by 57% on a quarter-on-quarter basis, suggesting strong momentum for AGBA during H123.

Commission expenses increased by 64% quarter-on-quarter. However, as a percentage of commissions earned, commission expenses marginally increased by 0.6pp to 73.4%. In H123, commission expenses as a percentage of commissions earned was 73.2%, a significant drop from 84.5% in H122, suggesting that AGBA can negotiate fees more competitively as it scales.

Personnel and benefit costs rose as the group increased headcount to support growth in the Platform and Distribution businesses. During H123, AGBA reversed the annual bonus of US$3.8m, which had already accrued at the end of FY22.

Additionally, AGBA incurred US$2m in technology costs (H122: US$0.3m) as it hired more staff to facilitate the expansion of OnePlatform, its proprietary technology platform, which manages the wealth and health products AGBA distributes.

Other general and administrative costs increased substantially to US$14.5m, or 597% y-o-y. The costs relate to the depreciation of property and equipment, legal and professional fees and management fee expenses. Since listing, AGBA has incurred more expenses, mainly through US legal counsel fees and costs related to office and administrative expenses that are paid to the holding company for the use of offices in Trust Tower and Hopewell Centre. This includes building management fees, government rates and rent, office rent, lease-related interest and depreciation incurred by the holding company. The costs also incorporate US$3.3m in share-based compensation awarded to a third-party marketing consultancy for services rendered at a price of US$1.578 per share.

Other income was positive at US$2.3m in H123, compared to a negative US$5.8m in H122, as AGBA primarily benefited from positive foreign exchange movements and investment income.

Despite a strong sales performance, costs increased at a faster pace and hence AGBA suffered a loss of US$22.7m in H123 – double the US$11.3m loss incurred in H122. Subsequently, net loss per ordinary share increased by 77% to US$0.36 versus H122.

Exhibit 1: Profit and loss – selected numbers

US$m (unless otherwise stated)	Q123	Q223	H123	H122	Q223 vs Q123	H123 vs H122
Commissions	10.0	16.3	26.3	3.8	63%	600%
Recurring service fees	1.0	1.0	2.0	2.3	(1%)	(12%)
Loans	0.0	0.0	0.0	0.1	0%	(23%)
Total revenue	**11.1**	**17.4**	**28.4**	**6.2**	**57%**	**361%**
Interest expense	(0.2)	(0.3)	(0.4)	0.0	50%	N/A!
Commission expense	(7.3)	(12.0)	(19.3)	(3.2)	64%	506%
Sales and marketing expense	(1.9)	(0.5)	(2.4)	(0.6)	(72%)	276%
Technology expense	(0.9)	(1.1)	(2.0)	(0.3)	20%	584%
Personnel and benefit expense	(9.6)	(5.3)	(15.0)	(5.4)	(45%)	176%
Other general and administrative	(5.9)	(8.7)	(14.5)	(2.1)	48%	597%
Loss from operations	**(14.6)**	**(10.4)**	**(25.0)**	**(5.4)**	**(29%)**	**361%**
Other income/(expenses)	(2.5)	(0.2)	2.3	(5.8)	(107%)	(140%)
Loss before tax	**(12.1)**	**(10.6)**	**(22.7)**	**(11.2)**	**(13%)**	**102%**
Taxes	0.0	(0.0)	0.0	(0.1)	(199%)	(100%)
Net loss	**(12.1)**	**(10.6)**	**(22.7)**	**(11.3)**	**(12%)**	**100%**
Weighted average shares (m)*	60.7	65.0	62.8	55.5		
Net loss per ordinary share (US$)	(0.20)	(0.16)	(0.36)	(0.20)	(18%)	77%

Source: AGBA, Edison Investment Research. Note: *Includes basic and diluted.

AGBA lowers forecasts through to 2026

On 14 April, AGBA released its financial projections for 2023–27 (see Exhibit 2). At the time of release, AGBA forecast sales of US$160m in 2023 and US$298m in 2024, and expected to achieve positive PBT of US$6m in 2024.

However, following China's underwhelming economic performance and less tourism into Hong Kong (from Mainland China), AGBA has downgraded its forecasts for 2023–26 (see Exhibit 3). It has reduced its revenue expectations for 2023 to c US$103m, with positive PBT now delayed until 2025 as the group adjusts its expectations in accordance with the performance of the wider economy.

A key factor in understanding the business model is the large variable cost base, which is dominated by commissions paid to agents, which in turn are based on sales. This means that the drop in projected PBT in 2023 and 2024 is relatively small compared to the shortfall in revenue expectations.

Additionally, with the build-out of its OnePlatform now complete, AGBA is focused on initialising its cost saving strategies and increasing revenues from new products. It expects to reduce costs incurred from recurring expenses by more than 30%, which should help narrow losses.

Positively, AGBA states that Chinese nationals continue to maintain high savings rates and high-net-worth individuals in the Greater Bay Area are keen to invest abroad and diversify away from cash. In the short run, the appetite to diversify away from cash could benefit AGBA. China continues to reduce its interest rate benchmark as it battles weaker consumer spending and a real estate slump. Wealth and savings products bought in Hong Kong could offer a more attractive financial return with enhanced product features.

Exhibit 2: AGBA projections released 14 April 2023

	AGBA Group					
HK$ Mn	**2023**	**2024**	**2025**	**2026**	**2027**	**CAGR**
Revenue	$1,240	$2,334	$3,186	$4,126	$5,111	42%
Sales Costs	(927)	(1,592)	(2,019)	(2,507)	(3,138)	36%
Gross Margin	313	742	1,167	1,619	1,972	58%
Expense	(740)	(694)	(717)	(759)	(801)	2%
Profit Before Tax	**($427)**	**$48**	**$450**	**$860**	**$1,171**	**NM**
As % of Revenue						**CHG**
Revenue	100%	100%	100%	100%	100%	- - -
Sales Costs	(75)	(68)	(63)	(61)	(61)	13%
Gross Margin	25	32	37	39	39	13%
Expense	(60)	(30)	(23)	(18)	(16)	44%
Profit Before Tax	**(34)%**	**2%**	**14%**	**21%**	**23%**	**57%**

Source: AGBA

Exhibit 3: AGBA revised projections released 30 August 2023

	AGBA Group				
HK$ Mn	**2023**	**2024**	**2025**	**2026**	**CAGR**
Revenue	$810	$1,510	$2,233	$2,963	54%
Sales Costs	(650)	(1,093)	(1,440)	(1,808)	41%
Gross Margin	160	417	793	1,156	93%
Expense	(541)	(493)	(507)	(528)	(1)%
Profit Before Tax	**($381)**	**($76)**	**$286**	**$627**	**NM**
As % of Revenue					**CHG**
Revenue	100%	100%	100%	100%	---
Sales Costs	(80)	(72)	(64)	(61)	19%
Gross Margin	20	28	36	39	19%
Expense	(67)	(33)	(23)	(18)	49%
Profit Before Tax	**(47)%**	**(5)%**	**13%**	**21%**	**68%**

Source: AGBA

Positive newsflow year to date

Exports fell by 9% y-o-y in Mainland China (August) and Hong Kong (July). Despite slowing growth, AGBA has demonstrated sales momentum and significantly improved its year-on-year performance during H123. Below we have highlighted some recent newsflow that should serve as tailwinds to AGBA.

In April, AGBA entered into an agreement to acquire 100% of Sony Life Financial Advisers for c US$1.9m. It is a licensed financial adviser and insurance broker in Singapore, and a subsidiary of Sony Life Insurance (an affiliate of the Sony Group Corporation). The acquisition will help AGBA enhance its branding and commercial footprint, as well as benefit from the geographical positioning of the island and its reputation as a major financial hub in South-East Asia.

In July, AGBA's OnePlatform partnered with HSBC Life, which ranks first in market share in Hong Kong for individual life new business premiums and annualised new premiums (2022), to distribute HSBC's Wealth Select Protection Linked Plan. AGBA was also selected to be a constituent stock of the MSCI Global Micro-Cap Index with effect from 31 August 2023.

In other news, during the year AGBA was able to expand its product offering by launching eight Securities and Futures Commission-authorised funds as well as OneGI, a digital sales platform for general insurance products. AGBA also announced that it plans to launch a direct-to-consumer savings and investment platform, called AGBA Money, at some point in the future.

Although the recovery in China has been pushed back, AGBA's sales momentum remains very strong, with double-digit growth rates expected. The medium-term outlook remains positive as AGBA continues to strengthen its partnerships, improve its product offering and attract new investors. If demand from Mainland China continues to be strong and its cost-saving initiatives bear fruit, AGBA should be able to navigate a less favourable macroeconomic climate successfully.

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