

## AGBA Group Holding

### Taking health and wealth to the GBA

AGBA is a Hong Kong-based financial services company offering a wide range of financial and healthcare products to the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). With a population of 86 million, the GBA is a dynamic US\$2tn economy, representing 13% of China's GDP. Coupled with an ageing population, expansion into the GBA serves as a strategic move to meet the ever-increasing demand for health and wealth products. Through its extensive distribution network of 1,528 independent financial advisors (the largest in Hong Kong), AGBA is well placed to benefit from a recovery in sales following the recent removal of COVID-19 restrictions.

### Health and wealth: Filling the gap in the GBA

Through its Platform and Distribution Business, AGBA distributes health and wealth products (produced by asset managers and insurers) to retail and institutional clients through its independent financial advisor (IFA) network. Branded a 'one-stop financial supermarket' AGBA offers a diverse range of solutions to a Chinese society that, according to AGBA, sees health and wealth as the two most important elements in life. The current limited state social safety net and a growing over-65 population in the mainland are resulting in strong product demand. As the only business combining health and wealth services in the GBA, AGBA has an opportunity to capitalise on the long-term trends of an ageing population and a developing economy.

### Tech is enabling growth

AGBA owns a portfolio of fintech investments through its subsidiaries, from which it hopes to make profitable gains as well as transfer useful knowledge into improving its own proprietary technology, OnePlatform. OnePlatform is used by IFAs to service their clients and distribute health and wealth products. The platform provides all necessary front-end client services and back-end operations support as well as educational courses for its advisors.

### Valuation: AGBA projects positive PBT in 2024

In FY23, AGBA expects to see an uplift in its revenues to US\$160m, as the group benefits from what it calls the 'best economic background for our business since 2003'. AGBA expects a loss before tax of US\$56m (HK\$427m) in FY23 and positive PBT of c US\$6m (HK\$48m) in FY24. AGBA has published internal valuations of US\$710m using peer group trading multiples and US\$963m on a DCF basis. (Note: Edison uses an exchange rate of HK\$7.84/US\$ throughout.)

#### 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	0.93	N/A
12/22	31.1	(44.4)	(0.79)	N/A	N/A	N/A

Source: AGBA Group Holding. Note: \*EPS is diluted.

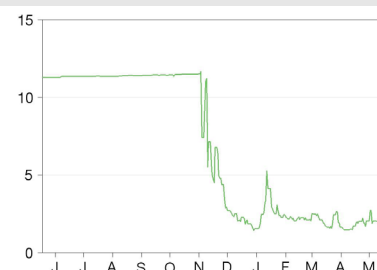
#### Financial services

18 May 2023

**Price** US\$1.62

**Market cap** US\$102m

#### Share price graph



#### Share details

Code	AGBA
Listing	NASDAQ
Shares in issue	62.9m
Cash at 31 December 2022	\$6.45m

#### 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

- AGBA has the largest number of IFAs in Hong Kong, allowing AGBA to be competitive in its product offerings and commission negotiation.
- China re-opening and expansion into GBA region should provide AGBA with more business as demand for health and wealth products is strong in the mainland.
- Mr Richard Tsai is the largest shareholder and chairman of Taiwan's Fubon Financial Holdings.

#### Bear

- Low free float of 9.6%.
- Business growth is partly dependent on third-party collaboration and product offering.
- Increasing involvement from the Chinese government by introducing new regulations, which may affect AGBA materially, should it be unable to meet the standards.

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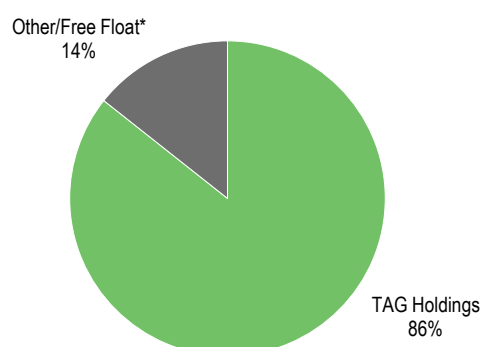
## Hong Kong's leading IFA business

AGBA is a leading wealth management and health product distribution business based in Hong Kong serving over 400,000 individuals and corporate customers. AGBA operates as both a B2B and B2C business, distributing financial and healthcare products through its 1,528 IFAs and offering a broker management platform for its advisors and third parties.

On 14 November 2022, AGBA Acquisition (AAL), a Nasdaq-listed special purpose acquisition company incorporated in the British Virgin Islands, merged with TAG Holdings through a business combination agreement. Following the acquisitions, the ordinary authorised shares of AAL increased from 100m to 200m and AAL was renamed AGBA Group Holding. Prior to the acquisitions, TAG Holdings operated under its parent company, Convoy Holdings, which was founded in 1993.

The Nasdaq-listed company has 62.9m shares outstanding with a free float of 14.2%. The low free float is due to the reverse recapitalisation where, at the time of acquisition, TAG became a major shareholder of AGBA, being issued 53,835,000 ordinary shares of AGBA.

### Exhibit 1: Top holders as of 18 May 2023



Source: Refinitiv, Edison Investment Research.

Since 2017, the business has been operating with new management and is backed by AGBA's largest shareholder, the family of Richard Tsai of Taiwan's Fubon Financial Holdings. Fubon Financial Holdings is a US\$27bn, Taiwan-headquartered financial services holding company that owns subsidiaries operating in the banking, asset management, insurance and brokerage industries. Through Oceana Glory and Eagle Legacy (beneficial shareholders of TAG, which Richard Tsai owns), Richard Tsai is a controlling shareholder of TAG, with holdings amounting to 27%.

## AGBA forecasts aggressive growth

With one of the largest insurance markets in the world in Hong Kong, followed by expansion into the US\$2tn GBA economy, AGBA is well placed to benefit from this mature but growing market. Between FY23 and FY27, AGBA expects to grow its revenues by 42% on a compound annual growth rate basis, while simultaneously improving margins and cost efficiency (see Exhibit 2).

AGBA expects to achieve these goals as it continues to scale its business, which it expects to give it leverage to negotiate favourable commissions, lower cost distribution channels and improve cost efficiency in its direct business costs.

**Exhibit 2: AGBA Group projections**

US\$m	2023e	2024e	2025e	2026e	2027e
Revenue	160	303	414	536	664
Sales costs	(120)	(207)	(262)	(326)	(408)
Gross profit	40	96	152	210	256
Expenses	(96)	(90)	(93)	(99)	(104)
<b>Profit before tax</b>	<b>(56)</b>	<b>6</b>	<b>59</b>	<b>112</b>	<b>152</b>
As % of revenue					
Sales costs	75%	68%	63%	61%	61%
Gross profit	25%	32%	37%	39%	39%
Expenses	60%	30%	23%	18%	16%
<b>Profit before tax</b>	<b>-34%</b>	<b>2%</b>	<b>14%</b>	<b>21%</b>	<b>23%</b>

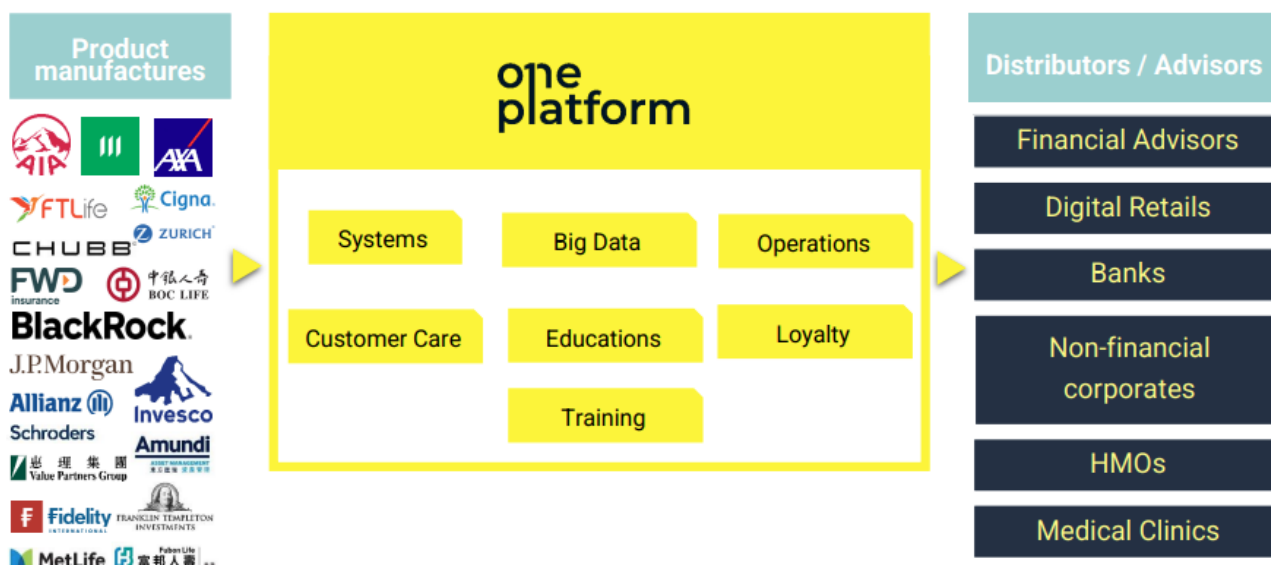
Source: AGBA Group

## Business operations

AGBA operates through four divisions: Platform Business, Distribution Business, Healthcare Business and Fintech Business.

The **Platform Business** is AGBA's proprietary technology platform, dubbed OnePlatform, which serves as a 'one-stop financial supermarket'. OnePlatform houses over 1,800 products offered by global financial institutions such as banks, insurers and asset managers. IFAs licensed by AGBA are able to advise and service their clients using these products. The product offering is comprehensive, including life insurance, pensions, property-casualty insurance, stock brokerage, mutual funds, money lending and real estate agency. Currently, OnePlatform houses 44 insurance providers selling 657 products and 44 asset managers offering over 1,000 products.

The Platform Business generates revenue by charging platform fees, between 15% and 27% of gross commissions, to advisors using AGBA's services.

**Exhibit 3: OnePlatform business solutions**


Source: AGBA – Investor Presentation

AGBA's **Distribution Business** encapsulates the largest independent financial advisory team in Hong Kong, with 1,528 registered advisors as of 31 December 2022. Licensed as an insurance broker and a registered mandatory provident fund (MPF) intermediary in Hong Kong, the Distribution Business provides financial planning and wealth management services to both institutional and individual clients.

The Distribution Business generates income predominantly from sales commissions and service fee income generated by OnePlatform. Commission income is earned at predetermined rates from the insurance providers by selling their products. Rates vary based on the type of product sold. We note that Hong Kong has a mature but growing life insurance market, with the most popular

products being whole life and endowment. Following the COVID-19 pandemic, part of AGBA's growth will be derived from the expected uplift in demand for life insurance products as well as the building out of other product lines.

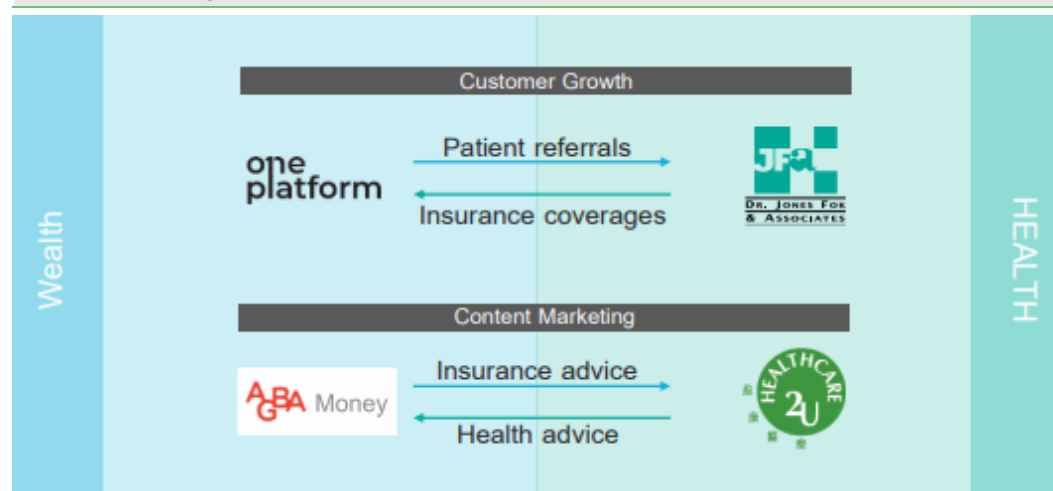
IFAs operate under 'AGBA focus' and 'AGBA perform', which serve as the primary distribution channels for the business. These channels serve as a 'matching platform' between insurance companies and consumers, whereby IFAs match consumer needs with the appropriate insurance products. The Distribution Business acquires new clients through direct conversation or meetings between financial advisors and corporate and retail customers. These opportunities are created by AGBA's marketing activities, which comprise sales campaigns and invitations to corporate events.

The **Healthcare Business** consists of the 4% minority, and strategic, stake that AGBA holds in HCMPS Healthcare Holdings (HCMPS) through one of its subsidiaries. It currently operates under the Dr. Jones Fok & Associates Medical Scheme Management (JFA) brand and has a strong presence in Hong Kong, having been founded in 1979.

JFA has four self-operated medical centres and a network of over 700 healthcare service providers. Its clients include blue-chip companies from various industries and it currently provides healthcare schemes for over 500 corporate clients with over 300,000 members. JFA is also the largest operator in Macau with around 70 clients. JFA's network and client base offers opportunities for the group in cross-selling additional products and boosting revenue growth.

Exhibit 4 outlines the partnerships between AGBA and JFA. According to AGBA, health and wealth are a priority in Chinese society. The strategic stake is beneficial for AGBA since, through OnePlatform, patients are referred to JFA, which in turn provides insurance coverage to those customers.





**Exhibit 4: Strategic healthcare operations**



Source: AGBA - Business Highlights and Management Discussion.

AGBA's **Fintech Business** invests in start-up firms based in the United States, Europe and Hong Kong. The group's investments are shown in Exhibit 5. We also highlight AGBA's other two investments not shown in Exhibit 5: **Goxip** (a fashion media platform based in Hong Kong) and **LC Healthcare Fund** (a PRC healthcare and healthtech investment fund). Through its fintech investments, AGBA is able to gain useful insight that can be utilised to modernise OnePlatform and improve its operational efficiency and product offering. This is combined with the potential to make lucrative gains from its investments. Such was the case when it sold its investment in Nutmeg Saving and Investment to JP Morgan in June 2021 for US\$139.1m.

**Exhibit 5: Fintech investments**

Investment	Description	
	UK digital challenger bank offering a full suite of products across savings and lending	<ul style="list-style-type: none"> <li>Highly successful monetization of Nutmeg in 2021 at a sizeable gain</li> <li>Remainder of FinTech investments have seen major capital contributions from its largest shareholders</li> <li>All investment companies have large addressable markets, ambitious strategic plans and are driven by capable management teams</li> <li>All investment companies are either profitable or have established a clear path to near-term profitability</li> </ul>
	Global technology driven currency exchange and international payments company. Formerly CurrencyFair	
	US digital health insurance company	
	UK digital wealth management platform (monetized in 2021)	

▶ **Goal: financial gains + knowledge transfers = develop and grow new business models** ◀

Source: AGBA investor presentation

Exhibits 6 and 7 reflect the income earned by each business. In FY22, Distribution and Platform income increased significantly to US\$31.1m as the IFAs were gradually onboarded and transferred over into the AGBA business. We note that due to the acquisitions that formed AGBA in November 2022, part of the income earned by the Distribution Business was attributable to the Legacy Group, and hence was not fully reflected in the accounts for FY21 and FY22.

Revenues for the Platform Business fell in FY22, mainly due to a decrease in commissions earned. This is attributed to the fact that not all financial advisors have been onboarded into the AGBA ecosystem.

In FY23, as the economy reopens and all IFAs are onboarded, AGBA expects group revenues to rebound to US\$160m, a 414% jump from FY22.

Investment income decreased by US\$139.2m in FY22 as a result of realising gains of US\$139.1m from the sale of Nutmeg in FY21. Investments in fintech are marked at fair value, so losses of US\$8.1m in FY22 are attributable to unrealised losses in marketable and non-marketable equity securities.

<b>Exhibit 6: FY22 segmental revenue (US\$m)</b>					
31 December 2022	Distribution Business	Platform Business	Fintech Business	Healthcare Business	Total
<b>Interest income</b>					
Loans		0.2			0.2
<b>Non-interest incomes</b>					
Commissions	24.6	2.0			26.6
Recurring service fee		4.3			4.3
<b>Total revenues</b>	<b>24.6</b>	<b>6.5</b>	<b>0.0</b>	<b>0.0</b>	<b>31.1</b>
Investment profit/(loss), net			(8.9)		(8.9)

Source: AGBA

**Exhibit 7: FY21 segmental revenue (US\$m)**

31 December 2021	Distribution Business	Platform Business	Fintech Business	Healthcare Business	Total
<b>Interest income</b>					
Loans		1.0			1.0
<b>Non-interest incomes</b>					
Commissions	0.9	4.2			5.2
Recurring service fee		5.3			5.3
<b>Total revenues</b>	<b>0.9</b>	<b>10.5</b>	<b>0.0</b>	<b>0.0</b>	<b>11.5</b>
Investment profit/(loss), net			130.3		130.3
Source: AGBA					

## Strategy: GBA integration, technology and market expansion

A key driver of growth for AGBA lies in the expansion into the GBA and South-East Asia. The GBA region is known as one of the world's largest financial services markets, an economy the size of US\$2tn (compared to US\$1.99tn for Tokyo and US\$1.81tn for New York). According to Chinese government sources, the GBA region has the largest GDP in China, comprising 13% of China's total economy. It is a populous area, of 86 million, with a GDP per capita of US\$22,585, and AGBA should be able to capitalise on this large and developing economy.

Gaining experience through trial and error in the development of its OnePlatform product, combined with investments in the fintech space, AGBA is taking advantage of new technology and is transferring knowledge from its fintech investments to improve its platform and product offering. AGBA continues to enhance OnePlatform, both in the services that it provides to brokers and in the number of products that it offers to consumers in order to increase scale and operating leverage.

Making AGBA more tech-centred should also help efficiency and, in turn, boost margins and profitability. OnePlatform operating costs do not increase linearly with the number of users, and currently the platform is able to handle significantly more traffic than the present number of users. Considering this, AGBA plans to keep improving the operational features of OnePlatform to mould it into a leading management platform, and it expects to attract third-party distributors, such as smaller banks, to leverage the platform's capabilities in addition to its IFAs.

Expansion into the GBA will help AGBA grow its customer base and increase market share. Consequently, this could enable AGBA to negotiate commissions more effectively, and hence earn higher fees while reducing costs. Given the size and diversity of China's corporate sector, there is a large potential to develop more partnerships. Most recently, AGBA has been in talks with a top asset manager ('Potential Partner') in China to provide offshore insurance solutions to the Potential Partner's 20 million-plus nationwide customers. The Potential Partner serves both individual affluent and high-net-worth customers as well as institutions.

**Exhibit 8: Map of the GBA area**


Source: AGBA – Business Highlights and Management Discussion

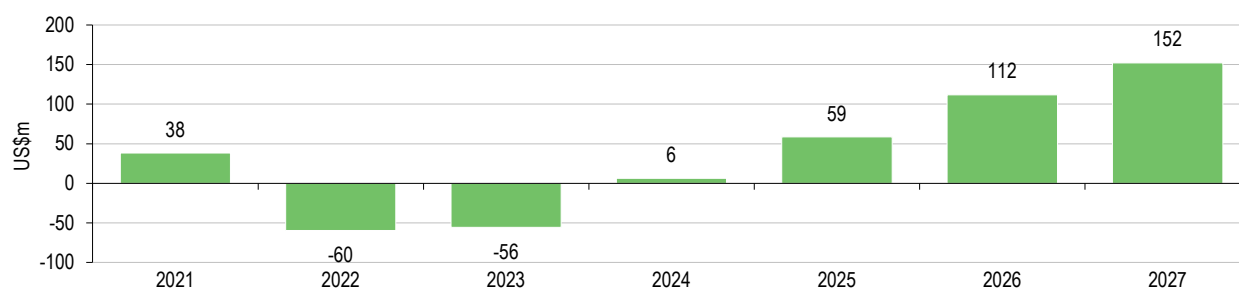
### **Summary: ‘Best economic background for our business since 2003’**

AGBA has positioned itself to benefit from long-term expected economic and demographic trends in the GBA. The company operates the largest IFA network in Hong Kong, selling both wealth and distribution products through a technology enabled platform. With the IFA network now largely in place coupled with the re-opening of China’s borders, AGBA expects a strong near-term recovery in FY23, anticipating US\$160m in revenues. AGBA expects positive PBT to follow by FY24 as the company continues to scale its client base and product offering.

According to AGBA, the delayed reopening has created a beneficial environment for the group to capitalise on. Over FY22, Chinese households continued to save, as COVID-19 restrictions still applied, which hindered spending, and mortgage rates have subsequently been coming down. This combination has allowed the Chinese population to increase its disposable income. Consequently, this could encourage a greater resurgence in spending in FY23, from which AGBA expects to benefit. AGBA highlights that clients in the mainland tend to buy their products from Hong Kong providers, as they are seen to have a more sophisticated market that offers better product features, value and service. Thus, the opening up of borders should strongly boost the overall market in FY23, having experienced tougher conditions over the past few years due to social unrest and COVID-19.

Exhibit 9 shows AGBA’s PBT projections into FY27. AGBA remains confident in its plans to grow and expects to achieve PBT of US\$6m in FY24, before increasing 25-fold by FY27 to US\$152m. A full description can be found on page 22 of AGBA’s valuation presentation ([Short valuation summary](#)).



**Exhibit 9: PBT projections provided by AGBA**


Source: AGBA Group. Note: Edison uses an exchange rate of HK\$7.84/US\$.

## Valuation

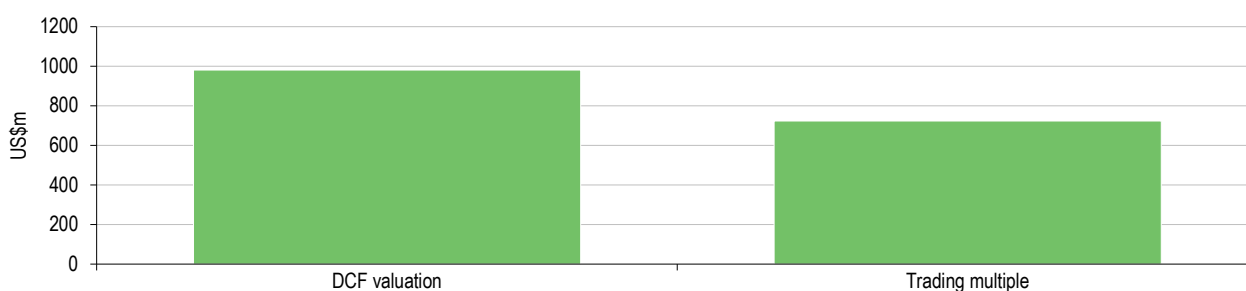
AGBA provides its own valuations through two methods: a trading multiple method and a DCF valuation. See Exhibit 10 for a visual representation of AGBA's valuation.

Due to the nature of AGBA's diverse business model, it has no true comparators. AGBA defines a list of comparable companies in seven categories: insurance brokerage, digital insurers, wealth distribution, wealth tech, healthcare services, China fintech and China financial services (a full breakdown can be found on page 8 of [AGBA-Business-Highlights-202302307-1.pdf](#)). AGBA obtains median multiples for its Distribution, Platform and Fintech Businesses and applies this to its FY23 and FY24 estimates to obtain a company valuation of US\$710m (HK\$5.6bn).

Alternatively, AGBA applies a DCF valuation using a cost of capital of 12% to obtain a valuation of US\$963m (HK\$7.5bn).

More detail on its valuation methodology can be found in AGBA's investor presentation ([Short valuation summary](#)) on pages 16 and 17.

Note that in these valuations, AGBA's healthcare business is not taken into account.

**Exhibit 10: DCF and trading multiple valuation**


Source: AGBA. Note: Edison uses an exchange rate of HK\$7.84/US\$.



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