



Rating
Hold

Asia
China

Banking / Finance
Other Financial Services

Company
Qudian

Reuters QD.N Bloomberg QD UN Exchange NYS Ticker QD

Date
25 August 2018

Forecast Change

Price at 23 Aug 2018 (USD)	6.86
Price target - 12mth (USD)	8.10
52-week range (USD)	34.90 - 6.77
NASDAQ 100	7,414

2Q18 results beat with a re-focus on core cash loan business

Robust earnings from cash loan business and scaling back auto finance business; expecting limited near-term impact from terminating Ant Financial cooperation on borrower acquisition

Qudian (QD) reported strong 2Q18 number with non-GAAP net profit of Rmb738mn, up 42% yoy (+118% qoq) and ahead DBe of Rmb544mn, mainly helped by 1) robust cash loan growth, 2) improved asset quality, and 3) adoption of ASC606 revenue booking. Stripping out Rmb157mn impact due to ASC 606 accounting, apple-to-apple adjusted operating profit was Rmb631mn, up 2% yoy (+199% qoq). Qudian maintains full-year profit guidance of >Rmb2.5bn and lowers auto finance cars sold number guidance to 25k-30k from 100k. We regard this as a positive development, scaling back from low-margin car loan business and re-focusing on the high-margin cash loan business. We expect limited near-term impact from the termination of the user engagement agreement with Ant Financial given 1) already large MAU of 15-20mn vs. only 5.1mn outstanding borrowers, and 2) 93% repeat borrowers in 2Q18. Management confirms that QD will remain a participant in Ant Financial's ecosystem. One more major shareholder (Mr. Du from Phoenix Wealth Holding with a 17% share stake in QD) quit his board seat in 2Q18. Despite QD's resilient near-term earnings outlook and funding advantage (no P2P operations), we maintain Hold given continuing selling pressure from major shareholders and uncertain long-term growth strategy.

2Q18 results highlights

- On **cash loan business**, loan balance reached Rmb15.0bn in 2Q18, up 34% qoq (+40% yoy); loan growth slowed down in June (+3% mom) due to asset quality concerns from recent round of P2P failures. Average loan ticket size was Rmb1,400, similar to 1Q18 but higher than Rmb1,000 in 2Q17; outstanding borrower number increased slightly to 5.1mn from 5.0mn in 2Q17. QD continued to grow the loan book by offering larger credit to better quality existing customers and sees ticket size as approaching Rmb3,000 in the long term.
- On **car loan business**, QD sold 8,474 cars in 2Q18 (vs. 6,324 in 1Q18) with auto loan balance of Rmb1.1bn. It revised down full-year cars sold number to 25k-30k from 100k previously, implying 5.1k-7.6k /quarter cars sold in 2H18. Management emphasizes risk management and expects the car loan business to turn profitable from September this year.
- Asset quality saw improvement** with 1Q18 delinquency vintage curve returned to 3Q17 trend (see [chart link](#)). On-balance sheet delinquency rate dropped to 5.0% from 8.1% in 1Q18 and loan approval rate recovered

Valuation & Risks

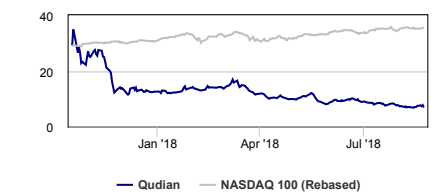
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Key changes

TP	8.50 to 8.10	↓	-4.7%
Source: Deutsche Bank			

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-13.5	-23.9	-
NASDAQ 100	0.6	6.6	26.7
Source: Deutsche Bank			

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to ~50% from 35% in the previous quarter. QD charged Rmb259mn provision cost & guarantee loss during the quarter (vs. Rmb487mn in 1Q18 and Rmb442 in 4Q17), but we expect this number to trend up given asset quality pressure from recent P2P failures.

- **Funding mix:** own capital / on-balance sheet funding (mainly trust) / off-balance sheet funding (mainly banks) accounted for 36%/35%/29% of funding balance in 2Q18, versus 29%/46%/25% in 1Q18. Management said funding cost improved during the quarter due to 1) utilizing more unused cash, and 2) selecting cheaper funding partners.
- **Share repurchase:** it disclosed that it bought back US\$150mn shares as of June 27, 2018 out of US\$300mn share repurchase plan announced in Dec 2017, implying US\$85mn share repurchase in 1H18 (US\$65mn in 2017).

TP cut by 5% to US\$8.1 due to lower growth assumption; Hold maintained

As Alipay user engagement cooperation accounted for 30%-40% new borrowers in QD, we cut our long-term growth assumption from 10% to 8% to reflect growth concerns after terminating this agreement. We use Gordon Growth Model as our primary valuation methodology and our TP implies 5x 2019E P/E and 1.2x 2019E P/B. We lift 2018E earnings by 5% to Rmb2.6bn to reflect strong 2Q18 results and largely maintain our 2019E/20E forecasts.

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Model updated: 24 August 2018

Running the numbers

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Reuters: QD.N

Bloomberg: QD UN

Hold

Price (23 Aug 18) USD 6.86

Target Price USD 8.10

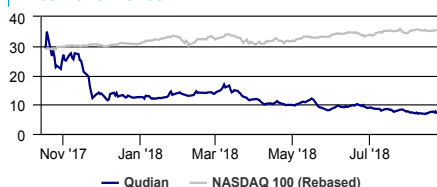
52 Week range USD 6.77 - 34.90

Market cap (m) USDm 2,271.7
EURm 1,963.3

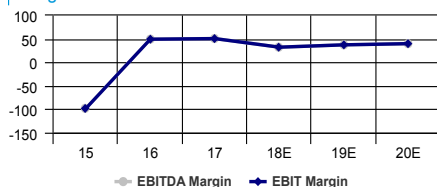
Company Profile

Qudian, founded in Apr 2014, is an online credit provider leveraged on big data-enabled technologies in China. From Nov 2015, it started to provide credit service to a broader base of young consumers in China instead of college students it focused on initially. It currently offers cash credit products in digital form and merchandise credit products to underserved young generation through online channels, and is expanding

Price Performance



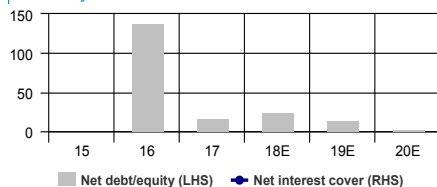
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec

Financial Summary

	2015	2016	2017	2018E	2019E	2020E
DB EPS (CNY)	-2.24	1.97	7.30	7.97	10.97	13.90
Reported EPS (CNY)	0.00	0.00	0.00	0.00	0.00	0.00
DPS (CNY)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (CNY)	-8.0	8.3	31.3	35.2	45.6	58.7
Weighted average shares (m)	79	304	305	331	335	339
Average market cap (CNYm)	na	na	39,755	15,604	15,604	15,604
Enterprise value (CNYm)	na	na	41,049	16,394	13,077	8,551

Valuation Metrics

	2015	2016	2017	2018E	2019E	2020E
P/E (DB) (x)	nm	na	17.8	5.9	4.3	3.4
P/E (Reported) (x)	nm	nm	nm	nm	nm	nm
P/BV (x)	0.00	0.00	2.71	1.34	1.03	0.80
FCF Yield (%)	na	na	7.7	22.5	22.1	28.1
Dividend Yield (%)	na	na	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	nm	8.6	1.9	1.2	0.6
EV/EBITDA (x)	nm	nm	16.9	5.9	3.1	1.6
EV/EBIT (x)	nm	nm	17.0	5.9	3.1	1.6

Income Statement (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Sales revenue	235	1,443	4,775	8,650	11,316	13,602
Gross profit	5	991	2,992	3,764	5,533	6,957
EBITDA	-230	715	2,427	2,802	4,232	5,429
Depreciation	1	2	6	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	-231	713	2,421	2,802	4,232	5,429
Net interest income/(expense)	3	2	4	24	0	0
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	-5	-11	-5	5	0	0
Profit before tax	-233	703	2,420	2,830	4,232	5,429
Income tax expense	0	127	256	259	635	814
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-233	577	2,164	2,571	3,597	4,614
DB adjustments (including dilution)	56	22	64	67	73	91
DB Net profit	-178	599	2,229	2,638	3,671	4,705

Cash Flow (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Cash flow from operations	-102	794	3,076	3,520	3,489	4,491
Net Capex	-2	-5	-11	-4	-5	-5
Free cash flow	-104	789	3,065	3,516	3,484	4,486
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	1,178	2,589	-2,083	-2,518	1,182	1,052
Other investing/financing cash flows	-866	-2,803	5,065	-4,731	-2,765	-2,923
Net cash flow	208	576	6,047	-3,733	1,901	2,615
Change in working capital	13	23	209	-374	-1,282	-1,337

Balance Sheet (CNYm)

	2015	2016	2017	2018E	2019E	2020E
Cash and other liquid assets	210	786	6,832	3,099	5,000	7,615
Tangible fixed assets	2	5	5	5	5	5
Goodwill/intangible assets	0	0	6	10	15	20
Associates/investments	227	583	362	2,083	4,680	7,643
Other assets	2,237	5,744	12,175	14,840	15,440	15,880
Total assets	2,676	7,118	19,380	20,037	25,141	31,164
Interest bearing debt	1,652	4,259	8,489	5,972	7,154	8,205
Other liabilities	1,655	345	1,351	2,396	2,721	3,078
Total liabilities	3,307	4,604	9,840	8,368	9,874	11,283
Shareholders' equity	-631	2,514	9,540	11,669	15,266	19,881
Minorities	0	0	0	0	0	0
Total shareholders' equity	-631	2,514	9,540	11,669	15,266	19,881
Net debt	1,442	3,474	1,657	2,873	2,153	590

Key Company Metrics

	2015	2016	2017	2018E	2019E	2020E
Sales growth (%)	nm	514.0	231.0	81.1	30.8	20.2
DB EPS growth (%)	na	na	270.4	9.1	37.7	26.7
EBITDA Margin (%)	-98.0	49.5	50.8	32.4	37.4	39.9
EBIT Margin (%)	-98.3	49.4	50.7	32.4	37.4	39.9
Payout ratio (%)	nm	0.0	0.0	0.0	0.0	0.0
ROE (%)	nm	61.3	35.9	24.2	26.7	26.3
Capex/sales (%)	0.6	0.3	0.2	0.1	0.0	0.0
Capex/depreciation (x)	2.2	3.1	2.0	nm	nm	nm
Net debt/equity (%)	nm	138.2	17.4	24.6	14.1	3.0
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Qudian	QD.N	6.86 (USD) 23 Aug 2018	14, 15

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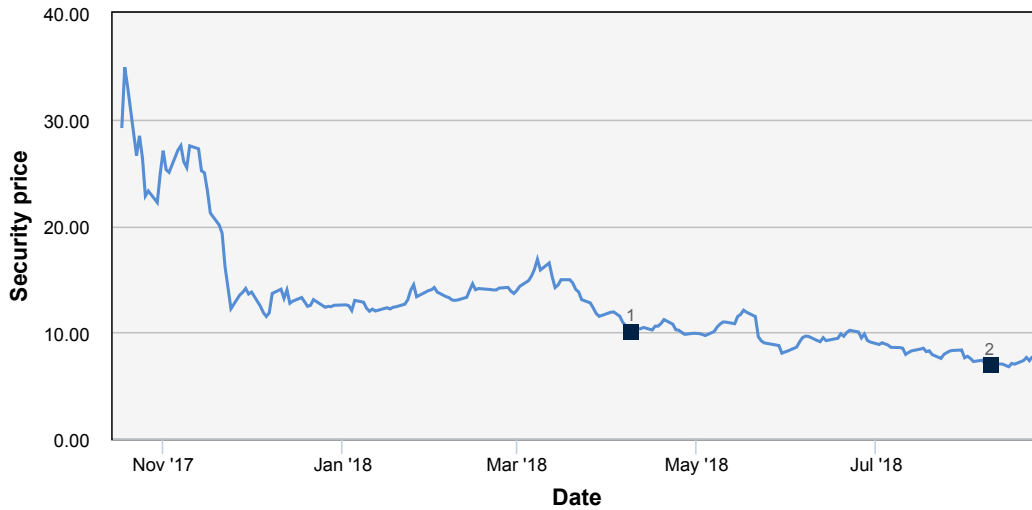
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Historical recommendations and target price. Qudian (QD.N)

(as of 08/23/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

- | | |
|--|---|
| 1. 04/09/2018 Hold, Target Price Change USD 13.50 Jacky Zuo, CFA | 2. 08/09/2018 Hold, Target Price Change USD 8.50 Jacky Zuo, CFA |
|--|---|

Equity Rating Key

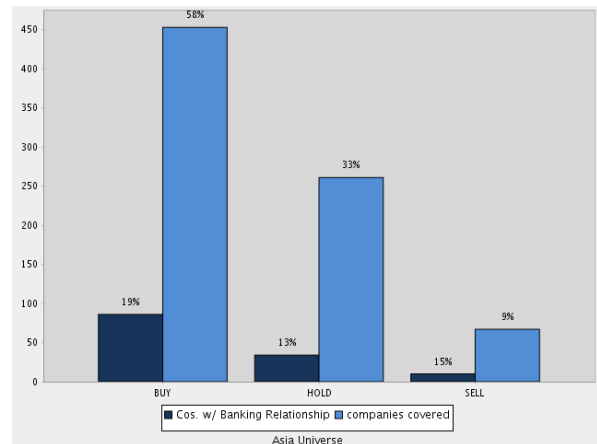
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships



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