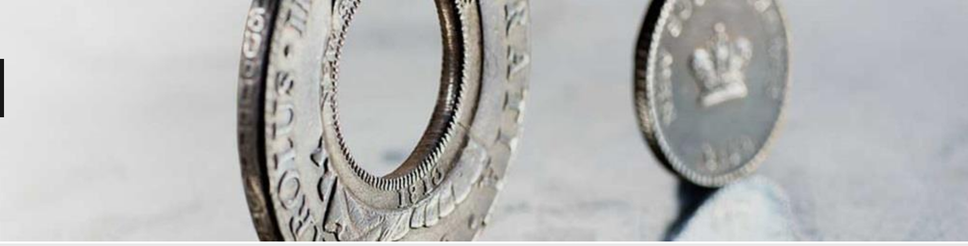


27 August 2018 United States

EQUITIES

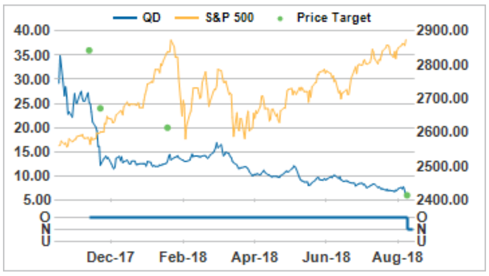
QD US	Neutral
Price (at 03:00, 25 Aug 2018 GMT)	US$6.02

Valuation - PER	US$	3.00-12.00
12-month target	US$	6.00
12-month TSR	%	-0.3
GICS sector		Diversified Financials
Market cap	US$m	1,987
30-day avg turnover	US$m	18.0
Number shares on issue	m	330.0

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	3,894.5	5,051.3	4,319.4	4,778.6
EBIT	m	2,370.5	2,746.7	2,576.9	2,876.8
Reported profit	m	2,164.5	2,452.0	2,215.2	2,464.1
Adjusted profit	m	2,164.5	2,452.0	2,215.2	2,464.1
Gross cashflow	m	2,164.5	2,452.0	2,215.2	2,464.1
CFPS	Rmb	6.86	7.46	6.76	7.52
CFPS growth	%	nmf	8.7	-9.4	11.2
PGCFPS	x	6.0	5.6	6.1	5.5
EPS adj	Rmb	6.92	7.47	6.76	7.52
EPS adj growth	%	nmf	8.0	-9.5	11.2
PER adj	x	6.0	5.5	6.1	5.5
Total DPS	Rmb	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	12.5	14.5	13.5	13.5
ROE	%	22.7	23.1	17.4	16.3
EV/EBITDA	x	5.4	5.0	5.4	4.8
Net debt/equity	%	-6.2	2.3	-26.1	-31.5
P/BV	x	1.3	1.2	1.0	0.8

QD US vs S&P 500, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, August 2018
(all figures in Rmb unless noted, TP in USD)

Qudian
Ant Financial casts a shadow on its outlook

Key points

- Downgrade to N. Though 2Q18 result was good, the loss of the strategic partnership with Ant Financial casts a shadow on its outlook.
- As such, we expect QD to face higher cost customer acquisition as well as higher credit risks going forward.
- Daibai is proved to fail due to low conversion rate and will stay loss-making.

Conclusion

- **Downgrade to N.** As expected, 2Q18 result was good but the outlook will be challenging post the termination of the contract with Ant Financial. After that, Qudian will not be able to acquire customers via the Laifenqi Icon ("the Icon") on the portal of Alipay App. However, all transactions will still be done via Alipay while it will keep its full access to Zhima Credit. Since this has been the key risk we highlighted in our initiation report, our previous investment case should no longer sustain.

Impact

- **Optimistic guidance on new customer acquisition**. Mgmt. believes that the impact should be minor because only 30% of new users came from the Icon of Alipay, while 30% came from the service window of Alipay and and 40% from its App. However, we believe new users of the app should also come from the icon because unqualified users were asked to download the App and thus the icon should contribute more than 70% of its new users.
- **Higher costs anyway.** Since only 4m of 67.9mn registered users are active borrowers, mgmt. indicated that they won't need to increase the sales and marketing expenses because they target to increase the repeat rates. While some of these existing customers could be out of the market after the credit crunch in 4Q17/1Q18, we believe it's unlikely for them to acquire new users without paying for external traffic where credit risks are also higher.
- **Dabai Auto also disappoints.** Dabai only sold 8.4K cars in 2Q18, up from 6.4K in 1Q18, and far behind its own guidance. This result should is very disappointing, as Qudian has fully mobilized its call-centre to direct customers to Dabai in 2Q18 (report), and the slow sales suggest a very low conversion rate. As such, mgmt. cut its sales target to 25K-30K cars from 100K guided previously, and Dabai Auto will stay loss making in 2018.

Earnings and target price revision

- We cut our PT to US$6 from US$20 (based on 6x 2019E EPS vs 12x prev) and reduce our EPS by 7%/39%/39% for 2018E/2019E/2020E to reflect the impact of losing the access to Alipay's customer base and weaker auto sales.

Price catalyst

- 12-month price target: US$6.00 based on a PER methodology.
- Catalyst: Slower growth in transactions, higher operating costs.

Action and recommendation

- Downgrade to N. We suggest investors to sit on the sidelines until mgmt. proves its capability to surive without Ant Financial.

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Fig 1 Qudian – Financial Summary

Rmb MN	2017	2018E	2019E	2020E
Income Statements				
Financing income - Cash Loans	3,642	3,375	1,471	1,324
Loans Facilitated	88,906	63,197	59,588	64,923
Growth	176%	-29%	-6%	9%
Financing income - Auto	0	139	532	789
Auto Sales	28	2,960	3,175	3,175
Growth		10321%	7%	0%
Sales commission fees - Merchandise	797	417	400	400
Sales commission fees - Auto	0	225	254	254
Penalty fees	8	32	40	43
Loan facilitation income	328	1,624	2,224	2,669
Total revenues	**4,775**	**5,812**	**4,920**	**5,479**
Cost of revenue	-881	-761	-601	-700
Net revenue	**3,895**	**5,051**	**4,319**	**4,779**
Sales and marketing	-432	-734	-745	-791
General and administrative	-184	-340	-340	-357
Research and development	-153	-174	-137	-164
Loss of guarantee liability	-150	-171	-226	-271
Provision for loan principal	-605	-886	-295	-319
Total operating expenses	**-1,524**	**-2,305**	**-1,742**	**-1,902**
Other operating income	51	9	0	0
Income from operations	**2,421**	**2,755**	**2,577**	**2,877**
Non-operating income	-1	75	92	92
Pre-tax profit	**2,420**	**2,830**	**2,669**	**2,969**
Tax xpenses	-256	-378	-454	-505
Net profit	**2,164**	**2,452**	**2,215**	**2,464**
Balance Sheet				
Cash and cash equivalents	6,832	3,215	4,935	7,143
Restricted cash	2,253	2,120	2,792	3,109
Short-term receivables	8,759	9,171	5,503	4,953
Long-term receivables	9	2,792	4,966	6,518
Others	1,528	1,891	1,891	1,891
Total assets	**19,380**	**19,189**	**20,087**	**23,613**
Short-term borrowings	7,979	5,603	4,109	5,110
Long-term borrowings	510	0	0	0
Deposits	0	148	465	547
Guarantee liabilities	47	86	86	86
Others	1,351	1,929	2,106	2,167
The liabilities	**9,840**	**7,532**	**6,215**	**7,277**
Total mezzanine equity	0	0	0	0
Common shareholders' equity	**9,540**	**11,657**	**13,872**	**16,337**
Non-controlling interests	0	0	0	0
Total shareholders' equity	**9,540**	**11,657**	**13,872**	**16,337**
Per Share Data				
EPS	7.09	7.46	6.76	7.52
EPS (FD)	7.09	7.37	6.66	7.40
BVPS	31.3	35.6	42.3	49.8
DPS	0.00	0.00	0.00	0.00
ROA	203%	13%	11%	11%
Leverage (x)	0.23	1.65	1.45	1.45
ROE	0%	23%	17%	16%
Issued shares	305	328	328	328
W.A. shares	305	329	328	328

Source: Company data, Macquarie Research, August 2018

Macquarie Quant View - Qudian (QD US)

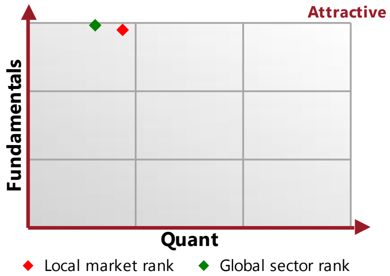
The Quant View page below has been derived from models that are developed and maintained by Sales and Trading personnel at Macquarie. The models are not a product of the Macquarie Research Department.

The quant model currently holds a reasonably negative view on Qudian. The strongest style exposure is Profitability, indicating this stock is efficiently converting investments to earnings; proxied by ratios like ROE or ROA. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

451/568

Global rank in Diversified Financials

% of BUY recommendations	50% (4/8)
Number of Price Target downgrades	3
Number of Price Target upgrades	3

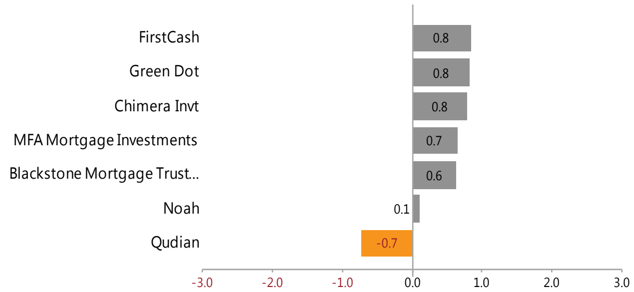


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (China) and Global sector (Diversified Financials)

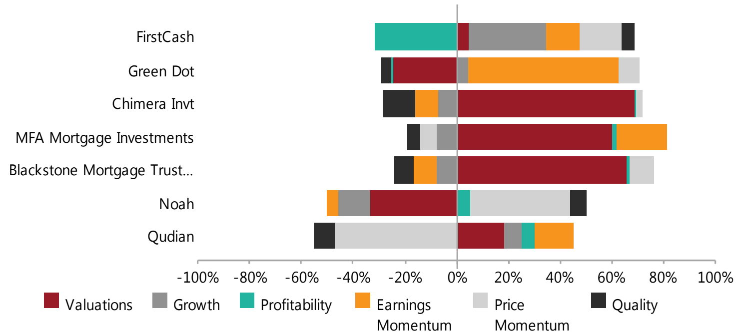
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



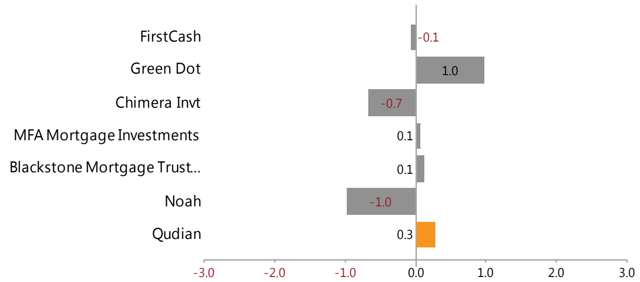
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



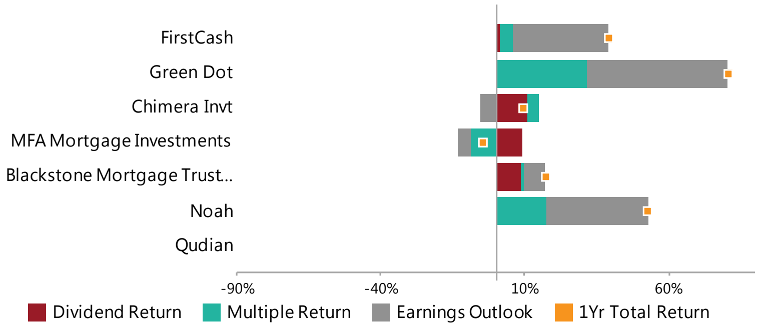
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



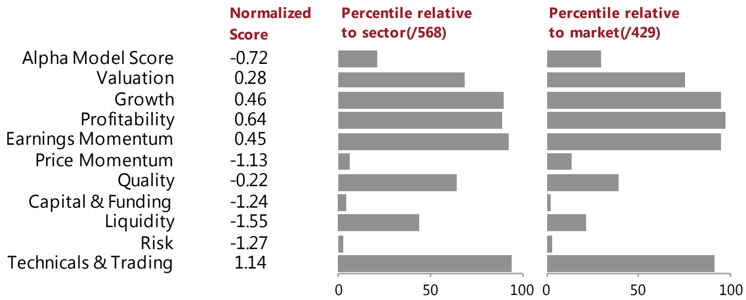
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield, which is currently around 9%.

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Mazi Macquarie – South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

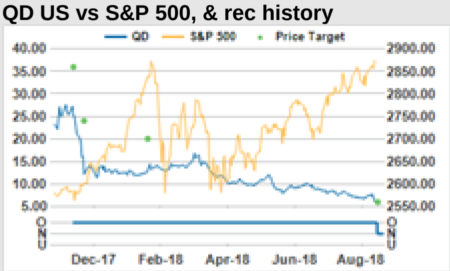
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	52.87%	61.26%	48.86%	47.54%	69.86%	46.61%	(for global coverage by Macquarie, 3.51% of stocks followed are investment banking clients)
Neutral	34.10%	27.25%	36.36%	46.72%	21.92%	43.22%	(for global coverage by Macquarie, 2.10% of stocks followed are investment banking clients)
Underperform	13.03%	11.49%	14.77%	5.74%	8.22%	10.17%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

QD US vs S&P 500, & rec history



(all figures in USD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, August 2018

12-month target price methodology

QD US: US$6.00 based on a PER methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
23-Jan-2018	QD US	Outperform	US$20.00
24-Nov-2017	QD US	Outperform	US$24.00
14-Nov-2017	QD US	Outperform	US$36.00

Target price risk disclosures:
QD US: Regulatory risk is the biggest hurdle to the sector. As fraud risk is manageable, default risk should be inevitable when the job market deteriorates. It also faces liquidity risk, interest rate risk and execution risks.

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