

Rating  
**Hold**

Asia  
China

Banking / Finance  
Other Financial Services

Company  
**Qudian**

Reuters QD.N    Bloomberg QD UN    Exchange NYS    Ticker QD

Date  
22 November 2018

**Results**

Price at 20 Nov 2018 (USD)	4.29
Price target - 12mth (USD)	6.90
52-week range (USD)	19.31 - 4.10
NASDAQ 100	6,527

## Results on track with cautious tone on asset quality

**On track to deliver Rmb2.5bn full year profit; lengthening loan tenor with lower loan approval rate**

Qudian (QD) reported 3Q18 non-GAAP net profit of Rmb747mn after adding back SBC and Rmb53mn FX loss, up 13% yoy (+4% qoq) and 11% ahead DBE. It maintained full-year profit guidance of >Rmb2.5bn, implying >Rmb670mn net profit in 4Q18. Adjusted EBIT actually dropped 17% yoy (-6% qoq) if stripping out Rmb123mn positive revenue impact from ASC606 accounting change. Given a challenging online lending industry environment, QD only grew loan balance by 2% qoq during the quarter with declining number of active borrowers; it tightened loan approval rate and continued to lengthen average loan tenor (10.2 months vs. 5.1 months in 1Q18) in order to reduce borrowers' repayment burden. Given the large user base (29mn users with approved credit), QD started to refer (unqualified) borrower traffic to other consumer lenders recently and expects referral revenue to become significant in 2019. Despite solid near term earnings number, we sense QD is prioritizing risk control over growth under current macro backdrop and longer term growth strategy remains uncertain. Hold rating retained.

**3Q18 results highlights**

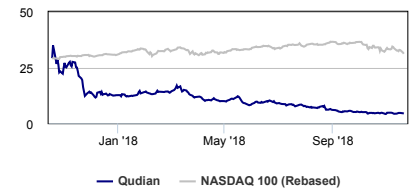
- On **cash loan business**, loan balance was Rmb15.3bn, up 2% qoq (+18% yoy). Management commented this was largely due to funding constraint given concerns around P2P industry. Average loan tenor was further lengthened to 10.2 months from 7.0 months in 2Q18 and 5.1 months in 1Q18 with stable loan ticket size (~Rmb1.4k). Registered users and users with approved credit continued to grow (70mn/29mn as of 3Q18) while borrowers with outstanding loans dropped to 4.9mn from 5.1mn in 2Q18. Management explained this was mainly due to tighter risk policy and lower loan approval rate amid P2P industry turbulence.
- On **borrower growth**, QD acquired 0.58mn new borrowers in 3Q18, similar as ~0.5mn in 1Q18 & 2Q18 but much lower than >1.6mn per quarter in 2017. Paid Alipay traffic channel has terminated in end-August and we think near term impact should be limited as QD has not actively acquired new borrowers this year anyways. However, longer term borrower growth strategy remains uncertain to us.
- On **auto finance business**, QD sold 6,273 cars in 3Q18 (vs. 8,474 in 2Q18 and 6,324 in 1Q18) with reducing number of offline stores. It plans to close down offline stores to 30 (from 175 in the year beginning)

**Valuation & Risks**

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**Price/price relative**



Performance (%)	1m	3m	12m
Absolute	-4.0	-43.8	-78.6
NASDAQ 100	-8.2	-11.5	3.5

Source: Deutsche Bank

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and focuses on profitability (achieved break even already). Management comments auto finance business won't be a growth driver going forward but will continue serving car loan demand from QD customers. It started to obtain off-balance funding for auto loans during the quarter.

- **Asset quality was controllable** with delinquency vintage curve below 2% (see [chart link](#) ). On-balance sheet delinquency rate dropped further to 4.5% from 5.0% in 2Q18 and 8.1% in 1Q18, but loan approval rate tightened again to 41% from 51% in 2Q18 (~35% in 1Q18). QD charged Rmb321mn provision cost & guarantee loss during the quarter (vs. Rmb259mn in 2Q18 and Rmb487mn in 1Q18).
- **Funding mix:** QD managed to obtain more funding from banks & consumer finance cos as reflected by higher off-balance sheet loan balance (37% of funding mix vs. 29% in 2Q18). Management sees 5-10% qoq loan growth in 4Q18 given easing funding environment, and views funding structure going forward is likely to be 1/3 on-balance sheet funding (i.e. trust), 1/3 off-balance sheet funding, and 1/3 funding by own capital.
- **Share repurchase:** it bought back US\$241mn shares as of Nov 21, 2018 out of US\$300mn share repurchase plan announced in Dec 2017, implying US\$91mn share buyback since 1H18. We calculated it bought US\$47mn in Oct & Nov so far to support share price.

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Model updated: 29 October 2018

Running the numbers

Asia

China

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Reuters: QD.N

Bloomberg: QD UN

Hold

Price (20 Nov 18) USD 4.29

Target Price USD 6.90

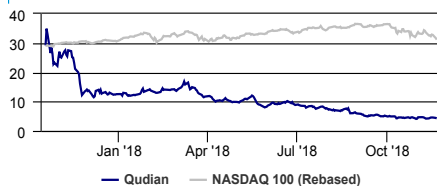
52 Week range USD 4.10 - 19.31

Market cap (m) USDm 1,420.6  
EURm 1,214.6

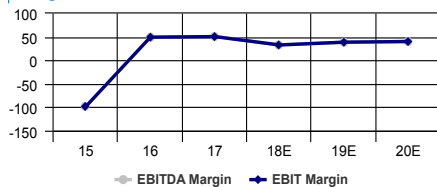
Company Profile

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

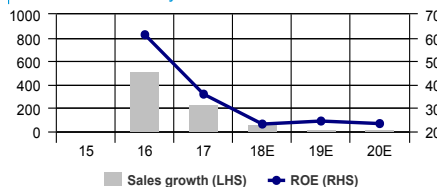
Price Performance



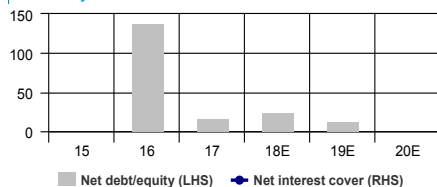
Margin Trends



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	7.57	9.81	11.77
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	34.8	44.1	55.1
Weighted average shares (m)	79	304	305	331	335	339
Average market cap (CNYm)	na	na	39,755	9,861	9,861	9,861
Enterprise value (CNYm)	na	na	41,049	11,019	8,253	4,672

Valuation Metrics

P/E (DB) (x)	nm	na	17.8	3.9	3.0	2.5
P/E (Reported) (x)	nm	nm	nm	nm	nm	nm
P/BV (x)	0.00	0.00	2.71	0.85	0.68	0.54
FCF Yield (%)	na	na	7.7	35.4	32.0	38.8
Dividend Yield (%)	na	na	0.0	0.0	0.0	0.0
EV/Sales (x)	nm	nm	8.6	1.4	0.8	0.4
EV/EBITDA (x)	nm	nm	16.9	4.1	2.2	1.0
EV/EBIT (x)	nm	nm	17.0	4.1	2.2	1.0

Income Statement (CNYm)

Sales revenue	235	1,443	4,775	8,078	9,743	11,415
Gross profit	5	991	2,992	3,583	5,148	6,222
EBITDA	-230	715	2,427	2,656	3,779	4,590
Depreciation	1	2	6	0	0	0
Amortisation	0	0	0	0	0	0
EBIT	-231	713	2,421	2,656	3,779	4,590
Net interest income/(expense)	3	2	4	24	0	0
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-5	-11	-5	5	0	0
Profit before tax	-233	703	2,420	2,685	3,779	4,590
Income tax expense	0	127	256	245	567	688
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	-233	577	2,164	2,440	3,212	3,901
DB adjustments (including dilution)	56	22	64	65	69	83
DB Net profit	-178	599	2,229	2,505	3,282	3,984

Cash Flow (CNYm)

Cash flow from operations	-102	794	3,076	3,493	3,190	3,914
Net Capex	-2	-5	-11	-4	-5	-5
Free cash flow	-104	789	3,065	3,488	3,185	3,909
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	-2,525	424	237
Other investing/financing cash flows	-866	-2,803	5,065	-4,759	-2,117	-2,208
Net cash flow	208	576	6,047	-3,795	1,492	1,938
Change in working capital	13	23	209	-254	-1,213	-1,214

Balance Sheet (CNYm)

Cash and other liquid assets	210	786	6,832	3,037	4,529	6,467
Tangible fixed assets	2	5	5	5	5	5
Goodwill/intangible assets	0	0	6	10	15	20
Associates/investments	227	583	362	1,770	3,468	5,348
Other assets	2,237	5,744	12,175	15,080	15,849	16,530
Total assets	2,676	7,118	19,380	19,902	23,865	28,369
Interest bearing debt	1,652	4,259	8,489	5,965	6,388	6,626
Other liabilities	1,655	345	1,351	2,399	2,727	3,092
Total liabilities	3,307	4,604	9,840	8,364	9,115	9,718
Shareholders' equity	-631	2,514	9,540	11,538	14,750	18,651
Minorities	0	0	0	0	0	0
Total shareholders' equity	-631	2,514	9,540	11,538	14,750	18,651
Net debt	1,442	3,474	1,657	2,928	1,859	159

Key Company Metrics

Sales growth (%)	nm	514.0	231.0	69.2	20.6	17.2
DB EPS growth (%)	na	na	270.4	3.6	29.7	20.0
EBITDA Margin (%)	-98.0	49.5	50.8	32.9	38.8	40.2
EBIT Margin (%)	-98.3	49.4	50.7	32.9	38.8	40.2
Payout ratio (%)	nm	0.0	0.0	0.0	0.0	0.0
ROE (%)	nm	61.3	35.9	23.2	24.4	23.4
Capex/sales (%)	0.6	0.3	0.2	0.1	0.1	0.0
Capex/depreciation (x)	2.2	3.1	2.0	nm	nm	nm
Net debt/equity (%)	nm	138.2	17.4	25.4	12.6	0.9
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	4.29 (USD) 20 Nov 2018	14, 15

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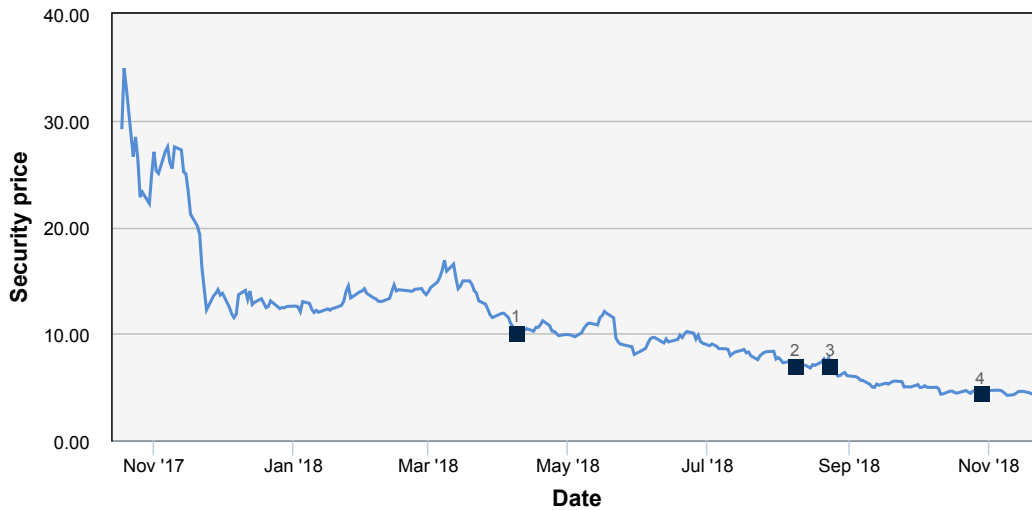
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Historical recommendations and target price. Qudian (QD.N)

(as of 11/20/2018)



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	3.	08/24/2018	Hold, Target Price Change USD 8.10	Jacky Zuo, CFA
2.	08/09/2018	Hold, Target Price Change USD 8.50	Jacky Zuo, CFA	4.	10/29/2018	Hold, Target Price Change USD 6.90	Jacky Zuo, CFA

Equity Rating Key

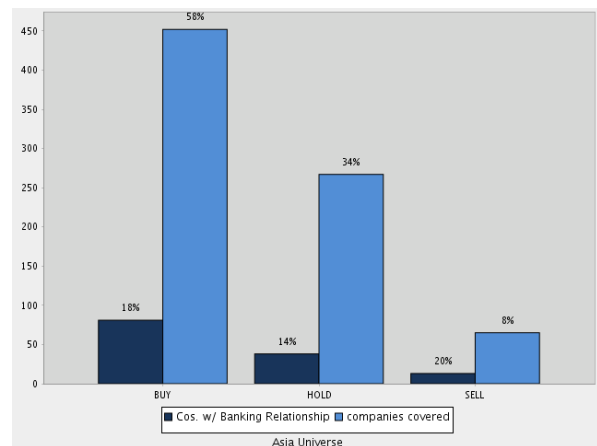
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

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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