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Weidai Ltd. | Asia Pacific

Weidai 3Q18 earnings call takeaways

📈 Stock Rating	👁 Industry View	📊 Price Target
Overweight	Attractive	US\$13.00

Management attributed the improvement of take rates in 3Q18 to product mix changes.

It expects take rate to be stable in 4Q18 with a potential increase in 2019.

Owing to the cleanup of the smaller platforms in the segment this year, Weidai is seeing a decline in funding supply and hence less competition.

Recent delinquency trends have recovered from the 3Q18 trough level but not yet recovered to the normal level in 2Q18.

The company has been prudent in provisioning with over 100% provision coverage (provisions / loans past due by 90 days) for its core auto-backed loan products as of 3Q18.

MORGAN STANLEY ASIA LIMITED+

John Cai

EQUITY ANALYST

John.Cai@morganstanley.com

+852 2239-1885

Weidai Ltd. (WEI.N, WEI.US)

China Financials / China

Stock Rating	Overweight
Industry View	Attractive
Price target	US\$13.00
Up/downside to price target (%)	30
Shr price, close (Dec 10, 2018)	US\$10.01
52-Week Range	US\$10.84-9.90
Sh out, dil, curr (mn)	48
Mkt cap, curr (mn)	Rmb3,346
Avg daily trading value (mn)	US\$0

Fiscal Year Ending	12/17	12/18e	12/19e	12/20e
ModelWare EPS (Rmb)	9.81	9.19	11.18	12.99
Prior ModelWare EPS (Rmb)	-	-	-	-
Consensus EPS (Rmb)§	-	-	-	-
ModelWare net inc (Rmb mn)	475	644	783	909
P/E	-	7.5	6.2	5.3
S'hldr eqty (Rmb mn)*	787	2,077	2,859	3,768
Return on avg eqty (%)**	83.9	44.9	31.7	27.4
P/BV	-	2.3	1.7	1.3

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

§ = Consensus data is provided by Thomson Reuters Estimates

* = GAAP or approximated based on GAAP

** = Based on consensus methodology

e = Morgan Stanley Research estimates

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Valuation Methodology and Risks

Our valuation methodology is based on a probability weighting of our bull, base, and bear case dividend discount model valuations. We believe a probability-based valuation methodology better captures the business model response to different scenarios than other methodologies, as the industry and business model are still at an early stage of development with a high level of uncertainty.

The respective weightings for our bull, base, and bear cases are 25%, 50%, and 25%, which captures the different scenarios: We cite Weidai's higher earnings visibility and a sustainable business model as the leader in an underserved MSE market. Our bull case scenario and distinct probability weighting also incorporate improved confidence in its 1) better-than-expected execution on cost control and institutional funding cooperation; 2) lower-than-expected credit losses amid the macro slowdown, supported by its shorter-term products and auto-backed collateral.

However, we also see a distinct chance that our bear case scenario, which reflects potential investor concerns regarding earnings visibility, could play out. We cite 1) slower-than-expected loan growth driven by higher funding pressure, likely due to higher industry volatility that might affect the sentiment of retail investors or potential regulatory tightening on cooperation with institutional funding; 2) faster asset quality deterioration, likely owing to the impact on MSEs of a macro slowdown; 3) slower-than-expected cost control measures.

Our key assumptions are as follows:

- **Discount rate:** 18%. This is based on a 3.5% risk-free rate, 7.25% market risk premium, and 2.0 beta, implying higher risk than for other banks under our coverage and for US peers.
- **Terminal growth rate:** 3%.
- **Payout ratio:** In 2027, we expect payout ratios of 90% for our bull case, 85% for our base case, and 60% for our bear case.

Key downside risks to achieving price target

- Higher-than-expected industry volatility during the clean-up process that might negatively impact the sentiment of P2P investors, leading to a decline in retail funding
- Slower-than-expected progress in sourcing institutional funding progress, resulting from potential regulatory tightening
- Slower progress on cost control amid subdued growth
- Faster-than-expected asset quality deterioration amid macro slowdown

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(as of November 30, 2018)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1156	37%	295	40%	26%	541	38%
Equal-weight/Hold	1405	44%	342	47%	24%	641	45%
Not-Rated/Hold	46	1%	7	1%	15%	7	0%
Underweight/Sell	555	18%	85	12%	15%	226	16%
TOTAL	3,162		729			1415	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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LexinFintech Holdings Ltd. (LX.O) - As of 12/10/18 in USD
Industry : China Financials

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

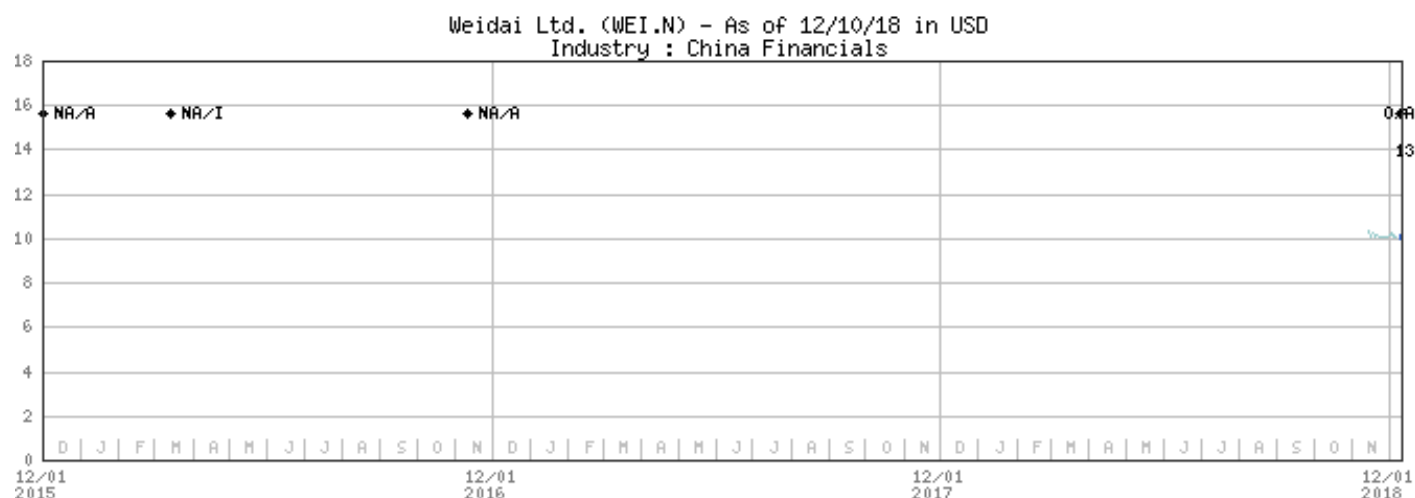
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (12/10/2018)
John Cai		
China Rapid Finance Ltd (XRF.N)	U (06/29/2018)	US\$1.63
LexinFintech Holdings Ltd. (LX.O)	E (12/11/2018)	US\$7.53
PPDAI Group Inc (PPDF.N)	E (12/11/2018)	US\$4.95
Weidai Ltd. (WEI.N)	O (12/11/2018)	US\$10.01
XFinancial (XYF.N)	E (10/15/2018)	US\$6.41
Yirendai (YRD.N)	E (06/25/2018)	US\$14.85
Lu Lu		
China Merchants Securities Co Ltd (600999.SS)	U (11/16/2016)	Rmb14.10
China Merchants Securities Co Ltd (6099.HK)	E (11/06/2018)	HK\$10.60
CITIC Ltd (0267.HK)	E (03/16/2018)	HK\$12.46
CITIC Securities Co. (6030.HK)	E (05/09/2018)	HK\$14.24
CITIC Securities Co. (600030.SS)	U (05/09/2018)	Rmb16.88
Galaxy Securities (6881.HK)	E (09/04/2018)	HK\$3.87
Galaxy Securities (601881.SS)	U (11/06/2018)	Rmb7.50
GF Securities (000776.SZ)	U (09/04/2018)	Rmb13.15
GF Securities (1776.HK)	E (11/06/2018)	HK\$11.12
Haitong Securities (6837.HK)	E (11/06/2018)	HK\$8.15
Haitong Securities (600837.SS)	U (08/13/2014)	Rmb9.67
HTSC (601688.SS)	U (04/20/2017)	Rmb17.05
HTSC (6886.HK)	O (07/02/2015)	HK\$12.62
Richard Xu, CFA		
Agricultural Bank of China Limited (601288.SS)	O (09/05/2014)	Rmb3.56
Agricultural Bank of China Limited (1288.HK)	O (03/20/2013)	HK\$3.36
Bank of China Limited (601988.SS)	O (11/11/2014)	Rmb3.57
Bank of China Limited (3988.HK)	O (11/11/2014)	HK\$3.27
Bank of Chongqing (1963.HK)	O (11/11/2016)	HK\$4.54
Bank of Communications (3328.HK)	E (11/11/2016)	HK\$5.77
Bank of Communications (601328.SS)	U (09/05/2014)	Rmb5.77
China Cinda Asset Management (1359.HK)	E (07/07/2016)	HK\$1.99
China CITIC Bank Corporation Limited (601998.SS)	U (09/05/2014)	Rmb5.56
China CITIC Bank Corporation Limited (0998.HK)	O (07/11/2017)	HK\$4.74
China Construction Bank Corp. (0939.HK)	O (10/11/2012)	HK\$6.39
China Construction Bank Corp. (601939.SS)	O (09/05/2014)	Rmb6.59
China Everbright Bank Co Ltd (6818.HK)	E (03/14/2016)	HK\$3.42
China Everbright Bank Co Ltd (601818.SS)	U (03/14/2016)	Rmb3.81
China Huarong Asset Management (2799.HK)	U (06/28/2018)	HK\$1.50
China Merchants Bank (600036.SS)	E (07/11/2017)	Rmb28.51
China Merchants Bank (3968.HK)	O (09/20/2018)	HK\$31.80
China Minsheng Banking Corp. (600016.SS)	E (01/26/2018)	Rmb6.00
China Minsheng Banking Corp. (1988.HK)	O (01/26/2018)	HK\$5.50
Chongqing Rural Commercial Bank (3618.HK)	O (01/28/2014)	HK\$4.26
Hua Xia Bank (600015.SS)	U (06/30/2015)	Rmb7.66
Huishang Bank Corporation Limited (3698.HK)	U (03/14/2016)	HK\$3.50
Industrial and Commercial Bank of China (1398.HK)	O (08/09/2013)	HK\$5.40
Industrial and Commercial Bank of China (601398.SS)	O (09/05/2014)	Rmb5.33
Industrial Bank Co. Ltd. (601166.SS)	E (03/14/2016)	Rmb15.84
Jianpu Technology Inc (JT.N)	E (12/14/2017)	US\$3.80
Ping An Bank (000001.SZ)	E (06/30/2015)	Rmb10.23
Postal Savings Bank of China Co Ltd (1658.HK)	O (11/01/2016)	HK\$4.44
Qudian Inc. (QD.N)	E (11/15/2017)	US\$5.09
Shanghai Pudong Development Bank (600000.SS)	E (11/11/2016)	Rmb10.72

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

