



Qudian (QD) Research

Description: Put simply they are a Chinese lending company that uses big data and AI to create consumer lending products

Price: \$4.67

Performance: -62.67% YTD and -86.62% since IPO in October 2017

Market Cap: \$1.5B

Valuation:

P/E: 4.5x

Forward P/E: 3.8x FY19 earnings and 2.7x 2020 earnings

P/S: 1.5x

Forward P/S: 0.63x FY 19 sales and 0.42x 2020 sales

Takeaway:

- Take a look at those numbers above. Qudian is crazy cheap on a fundamental/multiples standpoint. The company trades at 0.3x PEG (price to earnings to growth rate) and has been killing it as in Q2 they reported continued robust growth:

- Total revenues increased by 124.7% year-on-year to RMB2,243.7 million (US\$339.1 million)
- Loan facilitation income and others increased substantially year-on-year to RMB452.1 million (US\$68.3 million) from RMB15.2 million
- Financing income increased by 7.8% year-on-year to RMB895.1 million (US\$135.3 million)
- Sales income generated by the Dabai Auto business was RMB784.8 million (US\$118.6 million), compared to nil in the second quarter of 2017
- Net income increased by 42.4% year-on-year to RMB724.2 million (US\$109.4 million), or RMB2.19 (US\$0.33) per diluted ADS
- Non-GAAP net income increased by 42.0% year-on-year to RMB737.6 million (US\$111.5 million), or RMB2.23 (US\$0.34) per diluted ADS

In addition:

- Total outstanding loan balance increased by 40.3% to RMB15.0 billion from June 30, 2017
- Total number of registered users as of June 30, 2018 increased by 41.7% to 67.9 million from June 30, 2017
- Number of active borrowers was 4.0 million during the second quarter of 2018, compared with 5.6 million during the second quarter of 2017 as a result of tightened credit policies and longer loan term
- Number of outstanding borrowers as of June 30, 2018 was 5.1 million, compared with 5.0 million as of June 30, 2017
- M1+ Delinquency Rate by Vintage for loans generated during the first quarter of 2018 returned to less than 1.0% through June 30, 2018, as a result of successful implementation of tighter credit standards
- Cumulative number of cars sold since the launch of the Dabai Auto business was 15,082 as of June 30, 2018

Alright, so what's the catch for shares dropping virtually every single day since it's IPO high of \$35 to \$4.67?

Four reasons:

1. General worries about China, hence it got dragged down with all the other names
2. They did not renew their partnership with Ant Financial which in the company's 10K was stated as a very beneficial partnership for their loan origination but management has said that it will not materially effect them going forward. In the images below you will see how Wall Street firms hacked their estimates for sales and earnings on the news
3. They dropped their guidance on their Dabai Auto loans business from 100,000 cars to 25,000-30,000 cars
4. The absolute destruction of peer-to-peer lending has dragged them down even though they aren't dependent on peers lending to eachother as that isn't their business model. They do the lending (edited)

Overall, this looks like a case of investors losing trust in management alongside a country that is already pretty heavy in debt and worried that there can be a high number of delinquent loans. In our opinion this looks way oversold. The company is profitable, growing rapidly, and there is a need for this in China without a doubt. With that being said there is still no rush. It isn't considered oversold anymore because of the pop it had off of \$4.15 which was exactly where the lower band of the bollinger was at. It is caught in such a nasty downtrend and could easily sell off this pop like it has every single other one over the last 13 months. When the time is right we will most likely add this to our portfolio along with other China names.

Some Wall Street price targets:

Needham - \$13, down from \$20

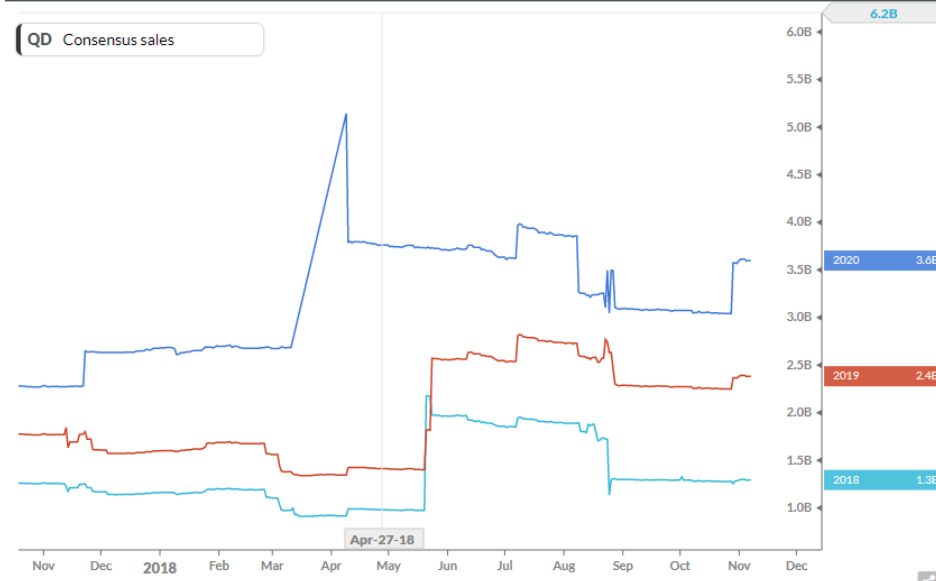
Stifel - \$15, down from \$19 and earlier \$35

Bernstein - \$7

They report earnings on November 21st, so that could be the next big catalyst to ensure everything is okay with the business.

Annual Estimates - Qudian Inc ADR

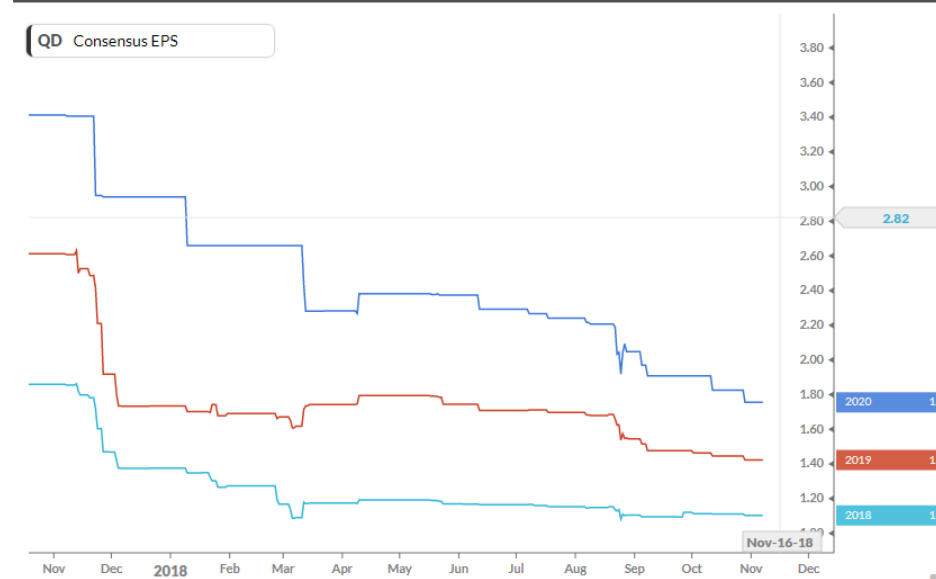
QD Consensus sales



Fiscal Year		Sales Est.	YoY Growth	1M	Revision Trend		
					3M	6M	
FY 2018	Dec 2018	\$1.3B	76.6%	0.1%	-31.6%	32.6%	
FY 2019	Dec 2019	\$2.4B	84.2%	4.8%	-12.8%	69.6%	
FY 2020	Dec 2020	\$3.6B	51.0%	17.0%	-6.8%	-3.8%	

Annual Estimates - Qudian Inc ADR

QD Consensus EPS



Fiscal Year		EPS Est.	P/E	YoY Growth	1M	Revision Trend		
						3M	6M	
FY 2018	Dec 2018	\$1.10	4.2x	1.2%	-0.9%	-3.7%	-7.5%	
FY 2019	Dec 2019	\$1.42	3.3x	29.0%	-2.8%	-15.5%	-20.7%	
FY 2020	Dec 2020	\$1.76	2.7x	23.4%	-8.0%	-20.8%	-26.3%	