

China / Hong Kong Company Update

Noah Holdings Ltd.

Bloomberg: NOAH US Equity | Reuters: NOAH.K

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DBS Group Research . Equity

15 Mar 2022

BUY

Last Traded Price (14 Mar 2022): US\$19.36 (NASDAQ : 12,581)

Price Target 12-mth: US\$38.21 (97% upside) (Prev US\$56.25)

Analyst

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What's New

- Strong FY21 results with net profits +20% y-o-y, in line with our forecast and ahead of the consensus
- Wealth management business achieved 35% y-o-y growth, driven by higher-than-expected subscription fee rate
- Gopher accomplished standardised product transition and has strong buffer to counteract current market situation
- Maintained BUY, trimmed FY22F/23F earnings growth by 8%/6% to 9%/9% based on management guidance and reflect higher compensation expense. Lowered TP to US\$38.2, with FY22F PE at 12x

Strong results, burden-free future

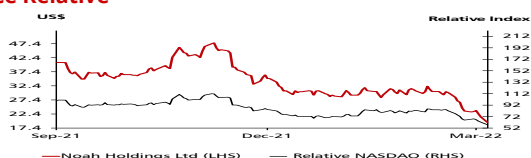
Investment Thesis

Transaction value to see consistent growth. Noah's transaction value has seen a moderate 3% y-o-y growth in FY21, driven by the sales of private equity products and public securities products. Going forward, we are expecting a consistent growth in transaction value, and see transaction value growing at 12%/14% in FY22F/23F.

HNW focus model to support subscription fee rate. Noah's subscription fee rate in FY21 reached a record high of 1.3%, primarily due to the scarcity of quality assets and less sensitivity to market fee rate changes, and have fluctuated at around the 1% level over the last five years. Going forward, we expect the fee rate to remain at its five-year average of 1% in FY22F/23F.

Gopher the differentiator. Gopher has materialised several products to create great returns for clients in FY21. The AUM of Gopher reached Rmb156bn in FY21, driven by the strong growth in private equity products. Going forward, we see Gopher's AUM continuing to grow, given its nature to provide alternative standardised investment products to clients. We expect AUM to grow 13%/13% y-o-y in FY22F/23F.

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	3,325	4,327	4,728	5,382
EBITDA	(653)	1,226	1,386	1,561
Pre-tax Profit	(585)	1,298	1,458	1,633
Net Profit	(745)	1,314	1,429	1,565
Net Pft (Pre Ex) (core profit)	(745)	1,314	1,429	1,565
Net Profit Gth (Pre-ex) (%)	N/A	N/A	8.8	9.5
EPS (RMB)	(12.01)	19.41	21.11	23.12
EPS (US\$)	(1.89)	3.05	3.32	3.63
EPS Gth (%)	N/A	N/A	8.8	9.5
Diluted EPS (US\$)	0.00	0.00	0.00	0.00
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	18.19	18.89	23.79	27.60
PE (X)	nm	6.3	5.8	5.3
P/Cash Flow (X)	1.5	2.4	1.5	1.1
P/Free CF (X)	1.5	2.4	1.5	1.1
EV/EBITDA (X)	nm	3.9	2.0	0.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.1	1.0	0.8	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	(10.5)	17.1	15.5	14.1
Earnings Rev (%):			(8)	(12)
Consensus EPS (RMB)			26.05	30.58
Other Broker Recs:		B:10	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Valuation:

Our target price is based on a 12x FY22F P/E, which is in its five-year mid-to-average level, to reflect the uncertainty of geopolitical impacts. However, current PE trades at 7x is clearly undervalued considering the strong fundamental.

Where we differ:

The consensus overall is underestimating Noah, but our FY21F forecast is largely in line with the actual numbers, as we believe that, as Noah is a boutique wealth management player, its flexibility and HNW stickiness will help it to further excel, in our estimates, with a 19% CAGR in the wealth management market.

Key Risks to Our View:

A substantial slowdown in China's economy, meaningful contraction in market liquidity, a noticeable share price drop in A/H-share markets, and implementation of restrictive market policies.

At A Glance

Issued Capital (m shrs)	61
Mkt Cap (US\$m)	1,181
Major Shareholders (%)	
Yiheng Capital Management, L.P.	15.3
Fidelity International	8.8
SC China Holding Ltd	7.6
Tiger Pacific Capital LP	6.8
Free Float (%)	61.5
3m Avg. Daily Val. (US\$m)	4.53
GICS Industry: Financials / Capital Market	



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WHAT'S NEW

Strong results, burden-free future

We attended Noah's FY21 results briefing on 15 March 2022 with positive takeaways. Its FY21 operating results were posted in line with our expectations, with net profits +20% y-o-y (excluding the Rmb1.8bn settlement fee in FY20) to Rmb1.3bn, largely in line with our previous forecast. The strong earnings performance in FY21 was mainly driven by 1) fast-growing active clients and core clients, with +25% and +18% y-o-y growth, respectively; 2) consistent transaction value growth, with +3% y-o-y growth in FY21; and 3) strong growth of private equity products' AUM of Gopher asset management, representing +16% y-o-y growth to support overall Gopher AUM growth (+2% y-o-y) amid the structural transition to get rid of credit products and liquidate real estate products. Overall, the net profit margin, for the first time in Noah's history, reached 30%, and with ROE at 16%, earnings performance has exceeded market expectations.

Wealth management, as Noah's primary business, achieved +35% y-o-y net revenue growth, driven by not only the consistent growth of transaction value (+3% y-o-y), but more importantly, the higher-than-expected subscription fee rate, which is calculated as a one-time commission/transaction value, reaching a record-high 1.3%. As such, one-time commission fee from wealth management was +54% y-o-y to Rmb1.2bn. We think the commission hike was primary due to 1) the scarceness of high-quality wealth management products, and 2) high-net-worth clients' nature of less fee sensitivity. Moving forward to FY22F, the uncertainty of the global economy and impacts from geopolitics have caused clients' investment target to shift from asset growth to asset secureness, meaning more professional wealth management teams will be needed, providing potential opportunities to Noah's wealth management business.

Noah's asset management branch, Gopher, as the differentiator compared to its peers, achieved a +19% y-o-y net revenue growth, driven by the AUM growth of private equity products, representing 16% y-o-y growth. Aligned with the strategy of shifting non-standardised products to standardised products, Gopher continued to get rid of its credit investment portfolio, with a remaining AUM of Rmb1.4bn, compared to Rmb5.5bn in FY20. Management claims that almost all credit assets have been successfully exited. Moving forward, we expect Gopher's profitability to remain, despite the current market situation, given that the majority of Gopher's products have a lock-up period of

three years, which helps to buffer out the negative impacts of deteriorating market sentiments.

Management also added that after a two-year strategic transformation, Noah has successfully completed the transition from non-standardised products to standardised products and has cleared most of the credit assets and high-yield real estate bonds. Management is confident that Noah currently has no burden for future growth.

Market concerns about whether Noah has significant delisting risk and how Noah performs its cost control measures. In terms of delisting risk, management claims that Noah is less likely to delist from US given US and China regulatory authorities are proactively negotiating the compromise solution. Noah at the same time has prepared several contingency measures for any possible outcomes. In terms of cost control, the rise of relationship manager headcounts and compensation are the main drivers of rising costs but in return, contributing more growing potential ahead. Noah also accounted a Rmb113mn provisions to its multi-million-worth collateral loans. Management expects loans will properly settle by the end of FY22F and will not grant new loans as Noah's chief focus on wealth management.

Overall, We maintain positive view on Noah regarding its boutique HNW focus market position. However, we fine-tuned the FY22F-23F forecasts to better reflect the overall market situation based on management FY22F guidance. We lowered our FY22F/23F transaction value growth from 23%/22% to 12%/14%, upscaling the compensation per relationship manager to Rmb1.3mn/Rmb1.4mn in FY22F/23F to reflect the fiercer RM recruitment, and lowered the PE multiple from 15x to 12x to reflect the current pessimism on China's concept stocks due to geopolitical impacts. As such, we trimmed FY22F earnings by 8% and lowered our TP to US\$38.2. We reiterate BUY call on Noah.

Please see below the summary of the Q&A from the analyst briefing:

Q: How do you see the current pandemic situation and the underperforming A-share market shifting clients' preferences?

A: We are closely communicating with our clients to ensure our clients are well prepared. Currently, our clients prefer

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secured products rather than a risky portfolio; they are more willing to hold cash, insurance, and asset segregation. We recommended equity+bond products last year that help protect our clients in a large way and we also materialised many products with good performance. Therefore, our client base remains solid and we are well adapted to the pandemic lockdowns, as we can process most of the businesses online.

Q: How would the drop in China's concept stocks and H-shares influence Gopher?

A: First of all, we have to clarify that we do not hold any high-yield real estate bonds since last year, and thus, clients are more trusting in us. We do hold many primary market assets; while we exited a portion in FY21, the remainder is held at a relatively low cost. So, although we might suffer from the current market situation, the impact remains manageable. Our quant products achieved positive return YTD, which also brings good news to clients.

Q: We saw a slight decrease in the headcounts of RM. Could you provide an outlook for FY22F?

A: We are targeting to build a top-performing RM team and regrouping our RM team for better productivity, which might cause a slight decrease in RM headcounts. Going forward in FY22F, we expect a moderate increase in RM headcounts but remain selective to ensure high productivity.

Q: Would you consider to payout dividend or share repurchase, considering the large cash position held?

A: We are positive about the future growth of Noah, given that we have solved all the burdens previously. Therefore, we see it might be a great time to consider a dividend payout and we are proactively progressing.

Company Background

Noah Holdings ("Noah") is a leading independent wealth and asset management company founded in 2003 in Shanghai, with global and open products distributed across 81 cities in China + six international regions. As of 1H21, Noah managed Rmb281.4bn AUA and had total assets/total liabilities of Rmb9.8bn/Rmb2.2bn.

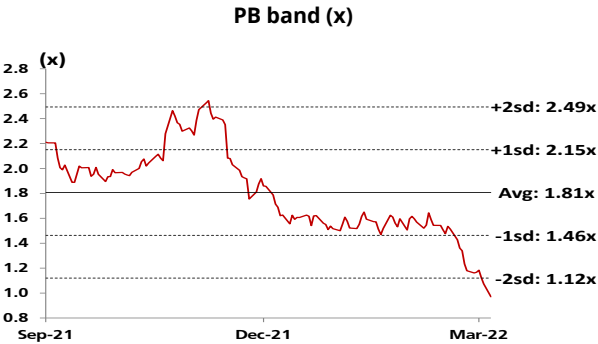
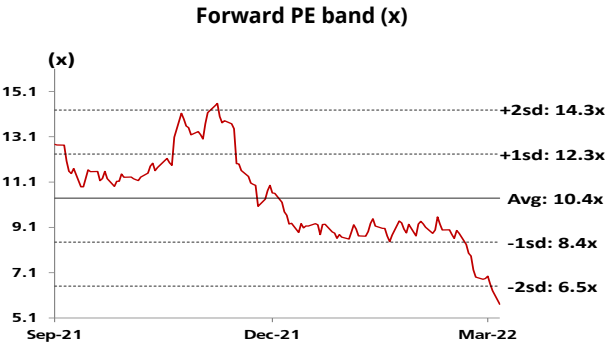
Income Statement (RMB m)

FY Dec	2020A	2021A	% chg	vov
Revenue	3,325	4,327		30.1
Cost of Goods Sold	0	0		N/A
Gross Profit	3,325	4,327		30.1
Other Opng (Exp)/Inc	(2,066)	(3,128)		51.4
Operating Profit	1,258	1,199		(4.7)
Other Non Opg (Exp)/Inc	(1,911)	27		nm
Associates & JV Inc	0	0		nm
Net Interest (Exp)/Inc	67	72		6.8
Exceptional Gain/(Loss)	0	0		nm
Pre-tax Profit	(585)	1,298		nm
Tax	(258)	(294)		13.7
Minority Interest	99	310		214.6
Net Profit	(745)	1,314		nm
Net Profit before Except.	(745)	1,314		nm
EBITDA	(653)	1,226		nm
Margins & Ratio				
Gross Margins (%)	100.0	100.0		
Opg Profit Margin (%)	37.9	27.7		
Net Profit Margin (%)	(22.4)	30.4		

Source: Company, DBS HK

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Transaction value (Rmb mn)	78,524.0	94,736.0	97,203.0	108,364.7	123,991.0
Subscription fee rate (bps)	118.6	85.4	130.8	100.0	90.0
Gopher AUM (Rmb mn)	170,200.0	152,800.0	156,000.0	176,410.0	199,908.0
Number of relationship manager	1,288.0	1,231.0	1,316.0	1,447.6	1,592.4
Management fee rate (bps)	40.3	42.1	40.9	44.0	45.0

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
One-time commissions	932	809	1,271	1,183	1,220
Recurring service fees	1,845	1,930	2,109	2,517	3,044
Performance-based fees	113	390	784	863	949
Other service fees	523	196	162	165	169
Total	3,413	3,325	4,327	4,728	5,382

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Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,413	3,325	4,327	4,728	5,382
Cost of Goods Sold	0	0	0	0	0
Gross Profit	3,413	3,325	4,327	4,728	5,382
Other Opng (Exp)/Inc	(2,498)	(2,066)	(3,128)	(3,343)	(3,821)
Operating Profit	915	1,258	1,199	1,386	1,561
Other Non Opg (Exp)/Inc	(36)	(1,911)	27	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	89	67	72	72	72
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	968	(585)	1,298	1,458	1,633
Tax	(220)	(258)	(294)	(330)	(370)
Minority Interest	81	99	310	302	302
Preference Dividend	0	0	0	0	0
Net Profit	829	(745)	1,314	1,429	1,565
Net Profit before Except.	829	(745)	1,314	1,429	1,565
EBITDA	879	(653)	1,226	1,386	1,561
Growth					
Revenue Gth (%)	3.1	(2.6)	30.1	9.3	13.8
EBITDA Gth (%)	(7.6)	N/A	N/A	13.0	12.6
Opg Profit Gth (%)	(1.2)	37.5	(4.7)	15.6	12.6
Net Profit Gth (%)	2.2	N/A	N/A	8.8	9.5
Margins & Ratio					
Opg Profit Margin (%)	26.8	37.9	27.7	29.3	29.0
Net Profit Margin (%)	24.3	(22.4)	30.4	30.2	29.1
ROAE (%)	12.9	(10.5)	17.1	15.5	14.1
ROA (%)	9.3	(7.8)	13.0	11.9	11.1
ROCE (%)	9.6	15.9	11.5	11.0	10.4
Div Payout Ratio (%)	0.0	N/A	0.0	0.0	0.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	296	249	2,581	2,581	2,581
Invt in Associates & JVs	1,272	1,265	1,402	1,472	1,546
Other LT Assets	1,503	1,183	1,390	1,368	1,347
Cash & ST Invt	5,065	5,130	3,498	5,744	7,435
Inventory	0	0	0	0	0
Debtors	1,422	1,374	1,855	1,887	1,920
Other Current Assets	244	199	164	164	164
Total Assets	9,803	9,400	10,890	13,215	14,993
ST Debt	0	0	0	0	0
Creditors	227	212	254	263	273
Other Current Liab	1,278	1,669	2,029	2,131	2,237
LT Debt	0	0	0	0	0
Other LT Liabilities	423	241	465	429	429
Shareholder's Equity	7,013	7,186	8,142	10,253	11,895
Minority Interests	861	92	0	139	159
Total Cap. & Liab.	9,803	9,400	10,890	13,215	14,993
Non-Cash Wkg. Capital	161	(308)	(264)	(344)	(427)
Net Cash/(Debt)	5,065	5,130	3,498	5,744	7,435
Debtors Turn (avg days)	155.9	153.5	136.2	144.4	129.1
Asset Turnover (x)	0.4	0.3	0.4	0.4	0.4
Current Ratio (x)	4.5	3.6	2.4	3.3	3.8
Quick Ratio (x)	4.3	3.5	2.3	3.2	3.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	12-Oct-21	US\$36.39	US\$56.25	Buy
2:	20-Oct-21	US\$37.13	US\$56.25	Buy

Source: DBS HK

Analyst: Sam Lu

Ken Shih

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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