

Qifu Technology Inc

Bloomberg: 3660 HK Equity | QFIN US Equity | Reuters: 3660.HK | QFIN.O

Refer to important disclosures at the end of this report

DBS Group Research . Equity

18 Jan 2024

HK: BUY (Initiating Coverage)

Last Traded Price (17 Jan 2024):HK\$54.80(HSI : 15,277)

Price Target 12-mth: HK\$73.80 (34.7% upside)

US: BUY (Initiating Coverage)

Last Traded Price (17 Jan 2024):US\$14.47(NASDAQ : 14,856)

Price Target 12-mth: US\$19.10 (32.0% upside)

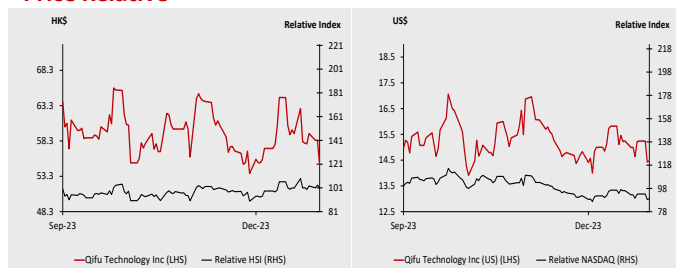
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Price Relative



Forecasts and Valuation (HK Shares)

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	16,554	16,019	18,043	20,502
EBITDA	4,507	4,980	5,770	6,677
Pre-tax Profit	4,742	5,312	6,042	6,950
Net Profit	4,024	4,266	4,850	5,577
Net Pft (Pre Ex) (core profit)	4,224	4,454	5,038	5,765
Net Profit Gth (Pre-ex) (%)	(30.0)	5.5	13.1	14.4
EPS (RMB)	12.87	13.24	15.05	17.31
EPS (HK\$)	13.99	14.39	16.36	18.81
Core EPS (RMB)	13.51	13.82	15.64	17.89
Core EPS (HK\$)	14.69	15.02	16.99	19.44
EPS Gth (%)	(31.6)	2.8	13.7	15.0
Core EPS Gth (%)	(31.2)	2.3	13.1	14.4
Diluted EPS (HK\$)	14.26	14.65	16.57	18.96
DPS (HK\$)	2.07	3.60	4.58	5.64
BV Per Share (HK\$)	65.53	73.08	83.57	97.36
PE (X)	3.9	3.8	3.3	2.9
CorePE (X)	3.7	3.6	3.2	2.8
P/Cash Flow (X)	2.7	nm	4.2	4.1
P/Free CF (X)	2.7	nm	4.2	4.1
EV/EBITDA (X)	1.2	1.8	1.2	0.7
Net Div Yield (%)	3.8	6.6	8.4	10.3
P/Book Value (X)	0.8	0.7	0.7	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	23.6	21.1	20.9	20.8
Earnings Rev (%):		New	New	New
Consensus EPS (RMB)		13.84	15.74	N/A
Other Broker Recs:		B:4	S:0	H:0

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

Headwinds removed, accelerated earnings growth ahead

- A leading Internet finance platform player to be benefited from the end of policy rectification
- Expect overall risk to be controllable in FY24/25F despite some fluctuations expected in delinquency ratio
- Expect low-teen y-o-y earnings growth in FY24/25F vs mid-single digit in FY23F, while stock trading at <4x FY24P/E and offers >8% dividend yield
- Initiate coverage with BUY and TPs at HK\$73.8/US\$19.1, respectively, for H-share and ADR

Investment Thesis

A leading Internet finance platform player. Qifu Technology (previously 360 DigiTech) provides a comprehensive suite of technology services to assist financial institutions, consumers, and SMEs in their loan lifecycles. It's the third largest player in China and took up 2.4% of total credit-tech market share in 2021.

Higher earnings growth prospects ahead. We expect the earnings growth in FY24/25F to be at around 13%-14% y-o-y, compared with c.5%-6% y-o-y in FY23F, despite a lower expectation for volume growth in FY24F vs. FY23F. The negative y-o-y impact from policy tightening in the form of lower APR ceilings has come to an end. We expect the stable policy environment ahead to be supportive to Qifu's finances and share price performance. The early repayment situation has also drastically improved in 2H23. In addition, we expect a further improvement in the operating margin, driven by declining cost of fundings, stable credit costs, largely stable client acquisition costs in FY24F vs. 2H23, and higher operation efficiency.

Overall risk controllable in FY24/25F. Looking ahead, we expect some fluctuations in asset quality in 2024, as the macroeconomic environment is expected to remain challenging, but the overall risk should be controllable in FY24-25, as 1) we expect some stabilisation in the China economy in 2H24 and 2) Qifu has gradually tightened credit standards and upgraded risk models in 2H23.

Initiate with BUY and TPs of HK\$73.8/US\$19.1. Our TP is based on 4.5x FY24F P/E, which is around the average trading level of its H-share and slightly above its ADR trading average of 3.9x P/E. The stock is currently trading at an undemanding value of <3.5x FY24F P/E and offers a dividend yield of >8% for FY24F on the H-share. We initiate with BUY and expect the end of the rectification regulation and stabilisation of the China economy to be positive catalysts.

Key Risks

1) Weaker-than-expected loan volume growth or margin; 2) deterioration of asset quality in the challenging economic environment; 3) unexpected policy changes; and 4) intensified competition from other major players and internet giants.

At A Glance

Issued Capital (m shrs)	323
Mkt Cap (HKm/US\$m)	17,700 / 2,263
Major Shareholders (%)	
Aerovane Co, Ltd.	12.4
Free Float (%)	87.6
3m Avg. Daily Val. (US\$m)	0.71
GICS Industry: Financials / Consumer Finance	

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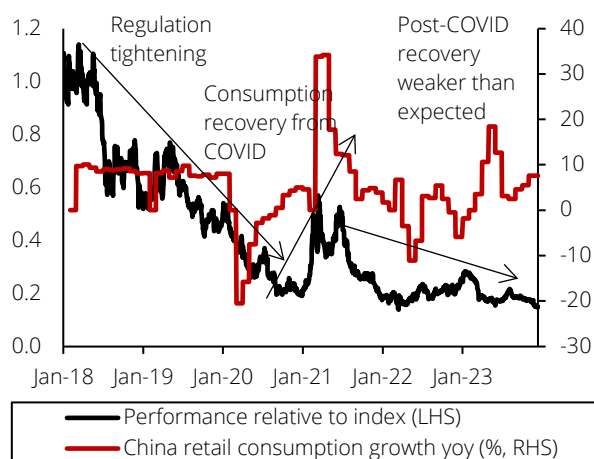
Qifu Technology Inc

Investment Summary

A leading credit tech platform in China. Qifu Technology (previously 360 DigiTech) provides a comprehensive suite of technology services to assist financial institutions, consumers, and SMEs in their loan lifecycles, ranging from the stages of borrower acquisition and preliminary credit assessments to fund matching and post-facilitation services. According to iResearch, the company is the third largest player and had captured 2.4% of China's consumer credit tech market in 2021.

Policy and China retail consumption growth key share price drivers for the industry. Looking at the sector's relative performance, we see a downward trend between 2018-2020 due to policy tightening and weak consumption during the mass lockdowns in 2020. There was a share price rebound in 2021, in line with the consumption rebound from COVID. The share price performance became weak again in 2022-2023, following a weaker-than-expected consumption recovery. Looking ahead, we expect the end of policy scrutiny to be supportive to share price. Though we do not expect strong rebound in consumption growth ahead, we see that's largely in price.

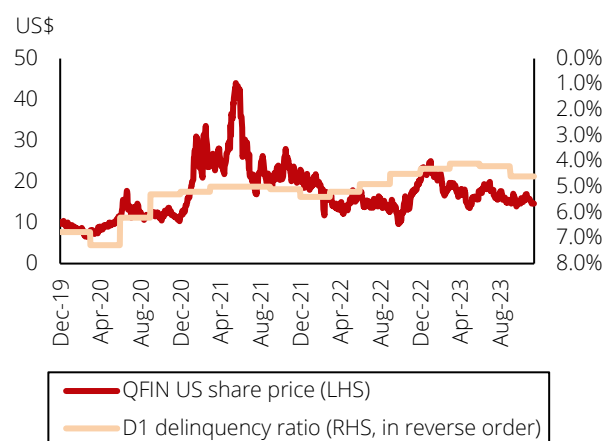
Policy and China consumption growth as key share price drivers



Source: Bloomberg Finance L.P., DBS HK

Risk largely controllable. The D1 delinquency ratio in 3Q23 increased by 0.1ppt y-o-y or 0.4ppt q-o-q to 4.6% in the challenging economic environment. Looking ahead, we expect some fluctuations in asset quality in 2024, as the macroeconomic environment remains challenging. However, the overall risk should be controllable in 2024-25, as 1) we expect some stabilisation in the China economy in 2H24 and 2) Qifu has gradually tightened credit standards and upgraded its risk models in 2H23.

QFIN US share price vs delinquency ratio



Source: Company, DBS HK

Improving operating margin. On the operation side, we expect a steadily improving operating margin. Apart from the major cost trends we have discussed under "Cost Structure", the company adopts a comprehensive management strategy to improve its operating efficiency. Its comprehensive management strategy includes things like loan duration management, user loyalty management, asset allocation, etc.

Expect low-teen y-o-y growth in earnings for FY24/25F. Despite the expectation of double-digit growth in loan facilitation volume in FY23F, we expect c.5%-6% y-o-y growth in net income for FY23F, as we see some headwinds in the year. These mainly include 1) the impact from the policy that the ceiling of the Annual Percentage Rate (APR) should be no higher than 24% and 2) the impact from the early repayment of loans, which saw its peak in 1H23, and as it becomes more normalised in 2H23. With the impact from the headwinds being removed, we expect earnings growth to be in line with top-line growth. Overall, we expect low-teen y-o-y growth in revenue and earnings for FY24/25F.

We value Qifu Tech at HK\$73.8/US\$19.1 for its H-share and US ADR, respectively. Our valuation is based on 4.5x FY24F P/E, which is around the average trading level of its H-share and slightly above its ADR trading average of 3.9x P/E. Its proxies in the banking sector, e.g., retail banks such as CMB (3968 HK) and PSBC (1658 HK), are currently trading at 3.5-4x FY24F P/E. We believe it's reasonable for Qifu Tech to be trading at a premium to commercial banks, given it has no exposure to risky sectors such as property and LGFV debt. The stock is currently trading at an undemanding value of <3.5x FY24F P/E and offers a dividend yield of >8% for FY24F on its H-share. We initiate with BUY and view the end of the regulation rectification and stabilisation of the China economy as positive catalyst

Valuation & Peers Comparison

We value Qifu Tech at HK\$73.8/US\$19.1 for its H-share and US ADR, respectively. Our valuation is based on 4.5x FY24F P/E, which is around the average trading level of its H-share and slightly above its ADR trading average of 3.9x P/E. Its proxies in the banking sector, e.g., retail banks such as CMB (3968 HK) and PSBC (1658 HK), are currently trading at 3.5-4x FY24F P/E. We believe it's reasonable for Qifu Tech to be trading at a premium to commercial banks, given it has no exposure to risky sectors such as property and LGFV debt. The stock is currently trading at an undemanding

value of <3.5x FY24F P/E and offers a dividend yield of >8% for FY24F on its H-share. We initiate with BUY and view the end of the regulation rectification and stabilisation of the China economy as positive catalysts.

Qifu Tech shows higher ROE than its listed Internet platform peers and a more balanced growth file between revenue growth, margin and risk management. It shows the highest y-o-y growth in number of users by the end of 3Q23, even though it has the highest base. It also shows the best performance in delinquency ratio in 3Q23, paving the way for a healthy and steady growth in the future.

Fig 15: Peers operating metrics

9M23 number (Rmb m)	Lufax (LU.US/6623 HK)	Finvolution (FINV. US) (3660 HK/ QFIN US)	QIFU	Lexin (LX.US)
Revenue	27,399	9,324	11,795	9,548
y-o-y	-40.2%	15.3%	-6.7%	40.1%
Net income	1,731	1,855	3,174	1,054
y-o-y	-81.8%	7.5%	0.7%	103%
Loan facilitation volume (Rmb bn)	161	142	123	188
y-o-y	-61.4%	12.1%	11.3%	26.7%
90+ delinquency ratio	3.7%	1.67%	1.82%	2.67%
q-o-q	+10bps	-1bps	-2bps	+8bps
30+ delinquency ratio	6.0%			4.87%
q-o-q	+10bps			+26bps
Cumulative users with approved credit lines/ successful drawdown (m)	20	29.2	49.2	30.9
y-o-y	6.8%	11.5%	14.4%	5.8%
Avg loan tenor (month)		8.2	11.2	13.1
y-o-y		(0.4)	(1.1)	(0.7)
Avg loan size (Rmb k)		8.5	8.8	

Source: Companies, DBS HK

Fig 16: Peers comparison

Company Name	Code	Currency	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE 23F x	PE 24F x	Yield 23F %	Yield 24F %	EV/EBITDA 23F x	ROE 24F %	ROE 23F %	ROE 24F %	FY22-24 Earnings CAGR %	Net gearing %	Latest reported	
																Gross margin %	Net margin %
US listed China Internet Finance platforms																	
Lufax Hldg American Deposit	LU US	USD	2.15	1,232	Dec	4.9	2.6	9.3	16.1	(5.1)	(2.7)	2.0	3.7	(30.6)	Cash	0.0	14.9
Finvolution Group Adr 1:5	FINV US	USD	4.61	1,302	Dec	3.8	3.3	4.6	5.5	2.3	2.1	18.5	18.0	7.5	Cash	81.7	20.4
Qifu Technology Adr 1:2*	QFIN US	USD	14.47	3,201	Dec	7.9	6.9	3.2	4.1	5.2	4.2	21.1	20.9	9.8	Cash	85.6	24.3
Lexinfintech Holdings Adr 1:2	LX US	USD	1.82	311	Dec	1.7	1.4	13.3	15.7	2.9	2.2	15.3	16.1	39.4	54.2	50.4	8.3
US fintech and consumer financing players																	
Sofi Technologies	SOFI US	USD	7.53	7,219	Dec	n.a.	139.4	0.0	0.0	20.5	13.7	(2.6)	2.1	n.a.	72.6	0.0	(20.5)
Affirm Holdings A	AFRM US	USD	41.01	12,374	Jun	n.a.	n.a.	n.a.	0.0	(21.4)	(50.5)	(38.3)	(30.1)	8.8	159.1	90.4	(70.4)
Upstart Holdings	UPST US	USD	31.06	2,642	Dec	n.a.	220.3	0.0	0.0	(145.6)	63.6	(8.3)	0.5	n.a.	70.8	79.3	(12.0)
HK listed China Internet Finance platforms																	
Lufax Holding	6623 HK	HKD	9.5	696	Dec	5.7	2.2	3.9	12.2	n.a.	n.a.	n.a.	n.a.	(30.1)	Cash	0.0	14.9
Qifu Technology*	3660 HK	HKD	54.80	1,549	Dec	3.8	3.3	6.6	8.4	1.8	1.2	21.1	20.9	9.8	Cash	85.6	24.3

FY23: FY24; FY24: FY25

Source: Thomson Reuters, *DBS HK

Qifu Technology Inc

Key Risks**1) Weaker-than-expected loan volume growth or margin**

The overall volume may be affected by several factors, including Qifu's brand recognition and reputation, the interest rates offered to borrowers relative to the market rates, the efficiency of its credit assessment process, availability of our financial institution partners, the macroeconomic environment and other factors. In connection with the introduction of new products or response to general economic conditions, the company may also impose more stringent borrower qualifications to ensure the quality of loans on its platform, which may negatively affect the growth of loan facilitation volume.

2) Deterioration of asset quality

The Credit-Tech industry in China has not witnessed a full credit cycle. The market players in the industry, including Qifu Technology, may not be able to respond to the change of market situations effectively and maintain steady business growth when the industry enters a different stage.

The macro-economic environment remains challenging in 2024. The deterioration of asset quality might be worse than expected if China economy growth is weaker than expected, or Qifu's risk management strategy cannot deal with the risk in the current cycle properly.

3) Unexpected policy changes

The market expects that the regulation rectification period has come to an end in 2023 and the regulation environment ahead should be stable. However, The Credit-Tech industry in the PRC is in a developing stage. The regulatory framework for this market is also evolving and may remain uncertain. Any unexpected policy changes might be negative to the company's share price performance.

4) Intensified competition from other major players and Internet giants

Various Internet giants are also proactively seeking opportunities in payment and micro-financing market to build their own ecosystem. Qifu might be faced with a more intensified competition environment and losing market share if other competitors are growing rapidly.

Qifu Technology Inc

SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong technology and innovation capabilities • Robust credit assessment capabilities repeatedly validated by the market • Multichannel and efficient user acquisition with a broader user base 	<ul style="list-style-type: none"> • Products mostly focused on retail consumption side and may face with higher demand volatility • Rely on FI partners to provide fundings
Opportunities	Threats
<ul style="list-style-type: none"> • Increasing penetration of Internet financing • This round of regulation rectification has come to an end • Market consolidation trend in the micro-finance industry 	<ul style="list-style-type: none"> • There might be still policy changes and uncertainties • Competition from other Internet giants • China economy environment and credit demand not yet fully recovered

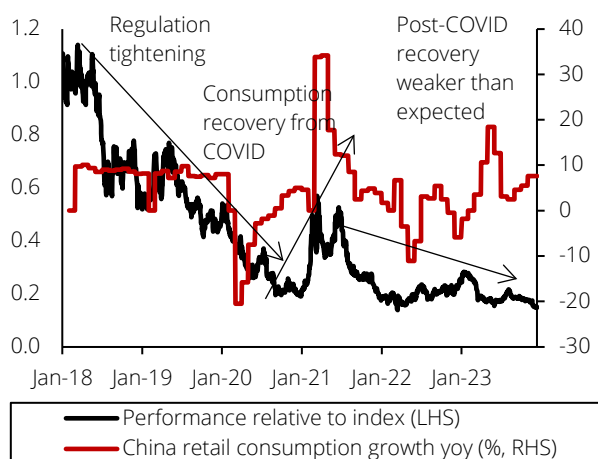
Source: DBS HK

Qifu Technology Inc

Principal share price driver

Policy and China retail consumption growth key share price drivers for the industry. Looking at the sector's relative performance, we see a downward trend between 2018-2020 due to policy tightening and weak consumption during the mass lockdowns in 2020. There was a share price rebound in 2021, in line with the consumption rebound from COVID. The share price performance became weak again in 2022-2023, following a weaker-than-expected consumption recovery. Looking ahead, we expect the end of policy scrutiny to be supportive to share price. Though we do not expect strong rebound in consumption growth ahead, we see that's largely in price.

Policy and China consumption growth as key share price drivers



Source: Bloomberg Finance L.P., DBS HK

The critical factors, specifically, for the company are:

1) Loan facilitation volume: The total loan facilitation volume increased by 15.9% y-o-y in 9M23 to c.Rmb 357bn, with cumulative users with approved credit lines increasing by 14.4% y-o-y to 49.2m by the end of 3Q23. Looking ahead, we expect the loan facilitation volume growth rate to slow down to c.10%-12% y-o-y in FY24/25F, from c.15% y-o-y in FY23F, due to a higher base and a conservative economic growth and credit demand outlook in 2024. We expect a slightly higher revenue take rate in FY24/25F to partly offset the impact from lower volume growth.

2) D1 delinquency ratio: The D1 delinquency ratio in 3Q23 increased by 0.1ppt y-o-y or 0.4ppt q-o-q to 4.6% in the challenging economic environment. Looking ahead, we expect some fluctuations in asset quality in 2024, as the macroeconomic environment remains challenging. However, the overall risk should be controllable in 2024-25, as 1) we expect some stabilisation in the China economy in 2H24 and 2) Qifu has gradually tightened credit standards and upgraded its risk models in 2H23.

QFIN US share price vs delinquency ratio



Source: Company, DBS HK

3) Operating margin: We expect a steadily improving operating margin. We expect lower costs of funding in the low interest rate environment. Marketing expenses as a percentage of total revenue is also expected to drop y-o-y in FY23-25F, as the company is not adopting a very aggressive client acquisition strategy in the current challenging environment. Apart from these, the company adopts a more comprehensive management strategy to improve its operating efficiency. Its comprehensive management strategy includes loan duration management, user loyalty management, asset allocation, etc.

Qifu Technology Inc

Financials

Revenue Drivers

A leading credit tech platform in China. Qifu Technology (previously 360 DigiTech) provides a comprehensive suite of technology services to assist financial institutions, consumers, and SMEs in their loan lifecycles, ranging from the stages of borrower acquisition and preliminary credit assessments to fund matching and post-facilitation services. According to iResearch, the company is the third largest player and had captured 2.4% of China's consumer credit tech market in 2021.

Fig 1: 2021 market share ranking

2021 Market share ranking	Company name	2021 Market share
1	Ant Group	26.0%
2	JD Technology	4.1%
3	Qifu Tech (360 DigiTech)	2.4%
4	Du Xiaoman	1.8%
5	Lexin Fintech	1.5%

Source: iResearch Report, DBS HK

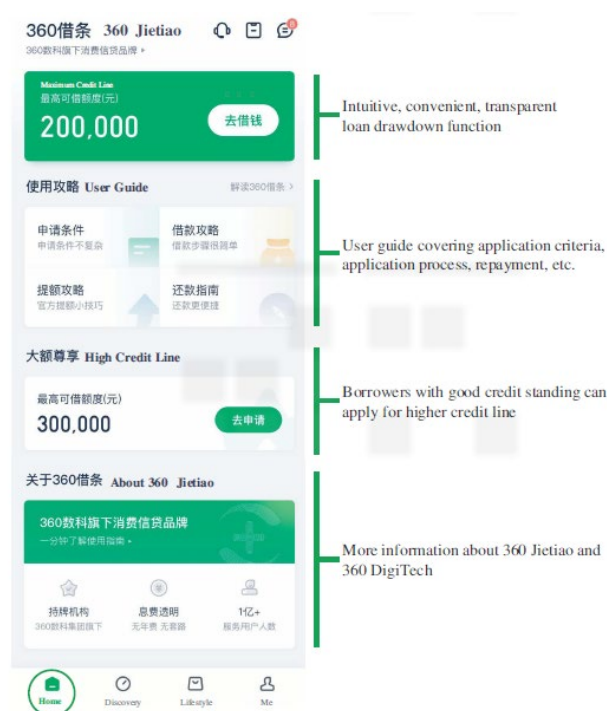
Fig 2: Key operating data

	3Q22	4Q22	1Q23	2Q23	3Q23
Loan facilitation volume (Rmb bn)	110.7	104.6	109.5	124.2	123.1
Loan ending balance (Rmb bn)	160.0	163.5	171.3	184.5	189.1
Average loan tenor (month)	12.3	11.4	11.2	11.0	11.2
Average drawdown (Rmb k)		8.6	9.2	8.8	8.8
% of loan volume in platform services	56.1%	56.1%	56.0%	57.8%	56.5%

Source: Company, DBS HK

Product offering. Qifu Tech's core product offered to users is an affordable, digitally revolving line of credit allowing multiple loan drawdowns, with a convenient application process and flexible loan tenors. The products are provided under the 360 Jietiao brand.

Fig 3: User interface of 360 Jietiao app



Source: Company, DBS HK

Offering diverse services to partners and users. The company's services are generally categorised into either credit-driven services or platform services based on the nature of services and the level of credit risks associated therewith. In 3Q23, platform services counted for 56.5% of total loan facilitation volume.

In terms of credit-driven services, Qifu matches prospective borrowers with financial institutions (FIs) and empowers FIs through the provision of borrower acquisition, credit assessment, fund matching, and post-facilitation services. By the end of 3Q23, Qifu has a total of 155 cumulative FI partners.

Loan products offered under this line of services are, in most cases, funded by Qifu's FI partners to whom Qifu provides guarantee services against potential default risks, with the remainder extended by trusts and ABSs or Fuzhou Microcredit, which is licensed to conduct micro-lending business in China. As Qifu provides guarantees against potential defaults or funds certain loans through trusts and ABSs or Fuzhou Microcredit, it bears credit risks under credit-driven services.

In its platform services model, Qifu provides customised technology solutions at different stages of the loan lifecycle. Specifically, the platform services include comprehensive loan facilitation and post-facilitation services under the capital-light model, intelligent marketing services to FI partners under the Intelligence Credit Engine (ICE), referral services, and risk management SaaS. Qifu does not bear any credit risk through its platform services.

Qifu Technology Inc

Fig 4: Qifu Technology's revenue sources

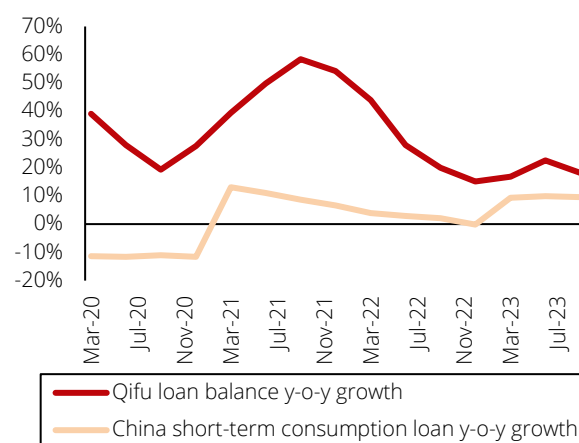
Business model	Revenue category	Loan type	As of total revenue (9M23)
Credit-driven services	Loan facilitation and servicing fees- capital heavy	Whole life cycle off-balance sheet Loan facilitation service in capital heavy model (e.g. revenue from interest margin)	10.1%
	Financing income	Interest income from on-balance sheet loan	30.7%
	Revenue from releasing of guarantee liabilities	Loan facilitation service where Qifu provides guarantee services to FI partners. The loan is off-balance sheet while guarantee on balance sheet	30.0%
	Other service fees		1.2%
Platform services	Loan facilitation and servicing fees-capital light	Whole life cycle Loan facilitation service in capital light model (e.g. profit sharing model with FI partners who takes credit risk)	21.3%
	Referral services fees	ICE and referral service to other institutions	4.3%
	Other services fees	Techsolotuion, SaaS and others	2.4%

Source: Company, DBS HK

Stable growth outlook on key revenue drivers. The key revenue drivers include loan facilitation volume and balance and revenue take rates. In the past few years, the growth of Qifu's loan ending balance shows a similar trend to that of overall short-term consumption loan growth in China, but the former was always higher than the latter. The gap between the two growth numbers is narrowing, as Qifu's loan balance has more than doubled from c.Rmb72bn by the end of 2019 to c.Rmb189bn by the end of 3Q23. In 9M23, Qifu's loan ending balance growth increased by 18.2% y-o-y, while China consumption loan increased by 9.6% y-o-y. Looking ahead, we expect c.15%/10% y-o-y loan facilitation and ending balance growth for Qifu in FY23/24F, with a stable growth outlook for the overall consumption loan in 2024 and as Qifu's loan base is further expanding.

The calculated revenue take rate showed a trend of dropping y-o-y in 9M23, which is mainly due to the lower APR ceiling required by regulators and a change in the product mix. The contribution from capital-light loan facilitation dropped from c.24% in 4Q22 to c.20% in 3Q23 while the contribution from the referral service increased from 2.4% to 5.5% in the same period. The revenue take rate from the referral service is lower than from the facilitation service. We saw some q-o-q improvement in the revenue rate trend in 3Q23. Looking ahead, we expect a slightly higher revenue take rate in 2024 with a more balanced strategy in the product mix and the y-o-y impact from the APR adjustment comes to an end.

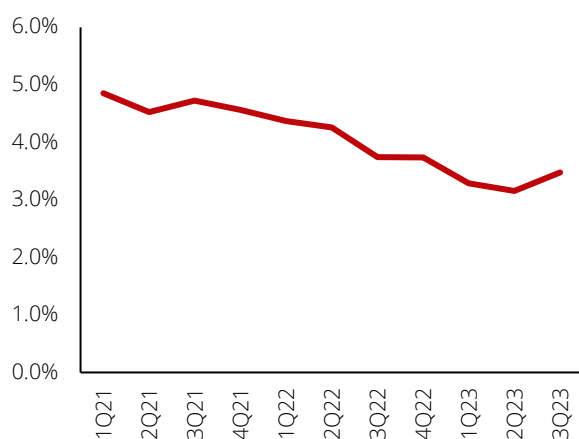
Fig 5: Qifu's loan balance vs. China short-term consumption loan growth



Source: Company, PBOC, DBS HK

Qifu Technology Inc

Fig 6: Qifu's calculated revenue take rate

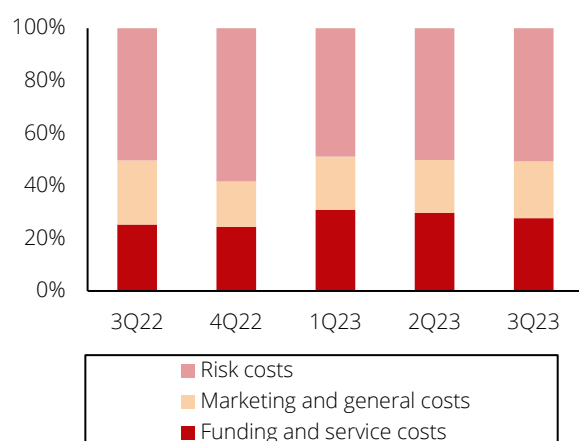


Source: Company, DBS HK

Cost Structure

Qifu Tech's cost could be roughly categorized into three types: 1) Funding costs, including the costs related to facilitation, servicing, and funding; 2) marketing and general costs, including sales and marketing and G&A expenses; and 3) credit costs, including various types of provisions. In 3Q23, funding costs made up c.27.6% of total costs, marketing and general c.21.6%, while credit costs made up the balance 50.7%.

Fig 7: Qifu's cost structure



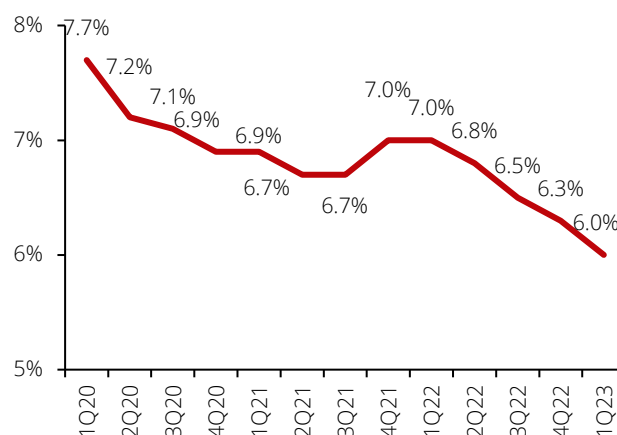
Source: Company, DBS HK

Funding costs dropping. In line with the interest rate downward cycle in China, Qifu Tech's funding costs kept dropping in the past few years. With relatively ample liquidity in the financial system during 3Q23, Qifu further optimised its funding structure by increasing the proportion from larger banks, which reduced its funding costs by another 20bps. Qifu also saw a 47bps q-o-q drop

in ABS issuance costs in 3Q23, as it secured ABS investments from multiple SOE and joint-stock banks and top securities firms.

Looking ahead, we expect Qifu's funding costs to be maintained at the low level in 2024 with the expectation of further interest rate cuts in China and higher ABS issuance.

Fig 8: Qifu's funding costs



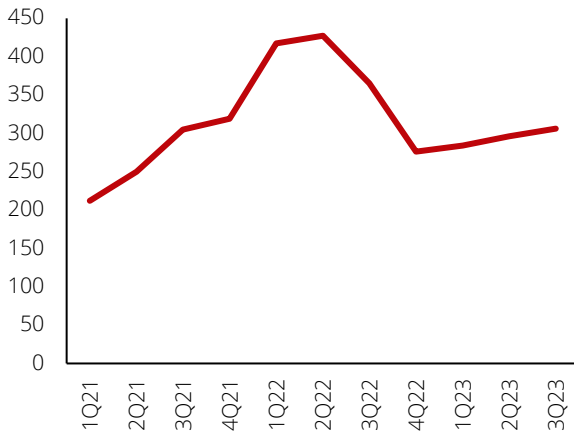
Source: Company, DBS HK

Slight increase in CAC in 3Q23. Client acquisition cost (CAC) is the key in marketing expenses. In 2023, the company's client acquisition strategy was relatively conservative and it focused more on reactivating existing borrowers. The volume contributed by repeat borrowers improved from c.88%-90% in FY22 to c.91%-92% in 9M23. The average CAC per user was less compared to FY22, but 3Q23 saw a marginal q-o-q increase, from below Rmb300 in 4Q22-2Q23 to Rmb306. This is mainly due to a more active strategy for new client acquisition adopted in 2H23.

Qifu has established a partnership with a leading short-form video platform through their embedded finance business in 3Q23 to optimise their customer acquisition channels. During the quarter, its embedded finance business generated a 46% sequential increase in the number of new users with approved credit lines. Its total cumulative client number increased by 14.4% y-o-y to 49.2m by the end of 3Q23. Looking ahead, we expect CAC in 2024 to be around the level we saw in 2H23, and slightly higher than 1H23's level.

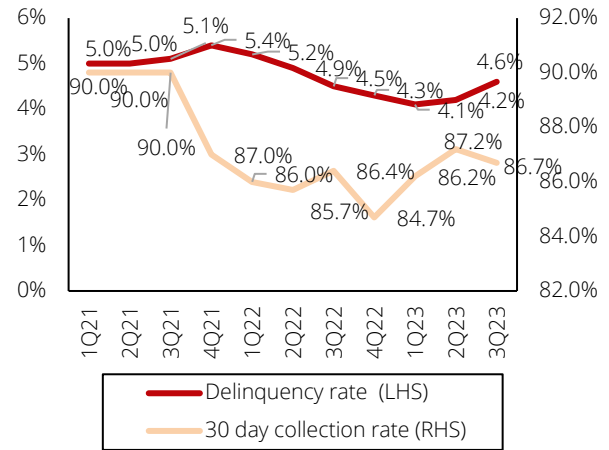
Qifu Technology Inc

Fig 9: Qifu's average client acquisition cost per user



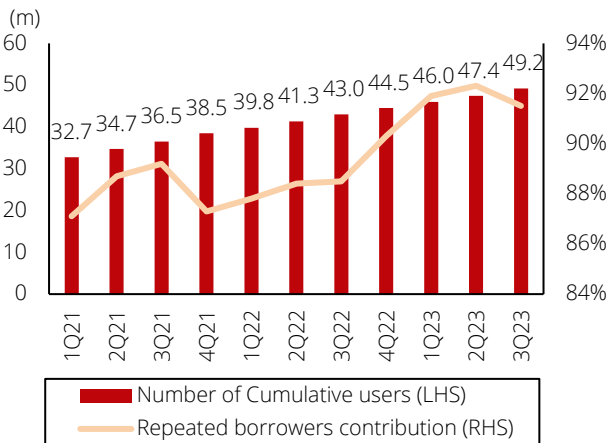
Source: Company, DBS HK

Fig 11: Qifu Tech's delinquency ratio



Source: Company, DBS HK

Fig 10: Qifu's cumulative client number and repeated users' contribution



Source: Company, DBS HK

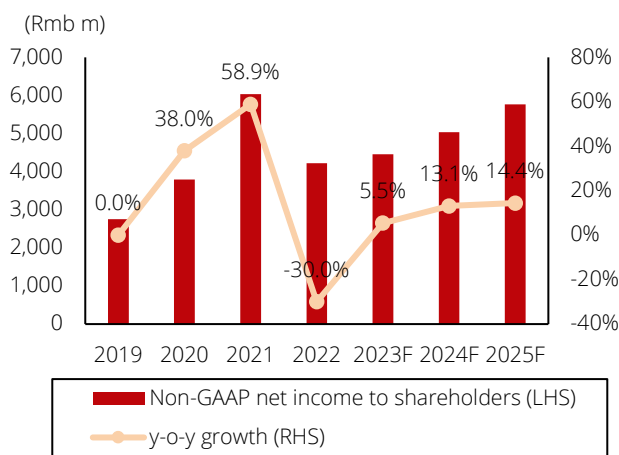
Risk largely controllable. c.50% of Qifu's costs comprise various provisions in 9M23. The proportion is lower than in 2H22. This is in line with Qifu's asset quality performance. The D1 delinquency ratio in 3Q23 increased by 0.1ppt y-o-y or 0.4ppt q-o-q to 4.6%. Looking ahead, we expect some fluctuations in asset quality in 2024, as the macroeconomic environment remains challenging, but the overall risk should be controllable in 2024-25, as 1) we expect some stabilisation of the China economy in 2H24 and 2) Qifu has gradually tightened credit standards and upgraded risk models in 2H23.

Qifu Technology Inc

Growth Prospects

Expect low-teen y-o-y growth in earnings for FY24/25F. Despite the expectation of double-digit growth in loan facilitation volume in FY23F, we expect c.5%-6% y-o-y growth in net income for FY23F, as we see some headwinds in the year. These mainly include 1) the impact from the policy that the ceiling of the Annual Percentage Rate (APR) should be no higher than 24% and 2) the impact from the early repayment of loans, which saw its peak in 1H23, and as it becomes more normalised in 2H23. With the impact from the headwinds being removed, we expect earnings growth to be in line with top-line growth. Overall, we expect low-teen y-o-y growth in revenue and earnings for FY24/25F.

Fig 12: Qifu's earnings growth projections



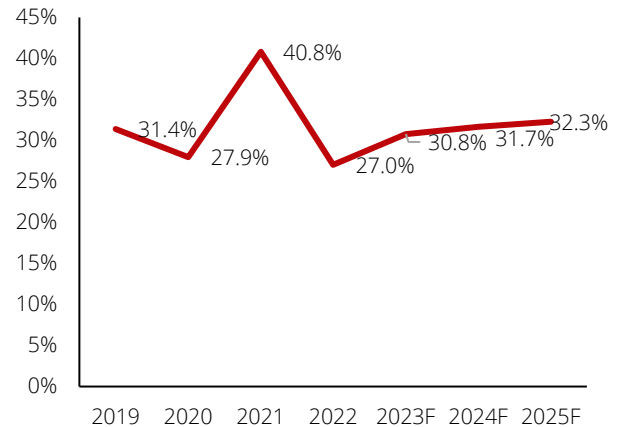
Source: Company, DBS HK

A stable policy environment ahead. Internet finance platforms underwent a period of regulation rectification from 2018-23. Since Nov 2020, Ant Group and 14 other large platform companies were provided guidance and came under supervision to effectively carry out rectification measures to address prominent issues such as unlicensed operations, regulatory arbitrage, disorderly expansion, and the infringement of consumer rights in their past financial businesses. In Jan 2023, regulators declared the rectification process was largely completed. We expect the end of policy scrutiny to be a positive share price catalyst for the industry.

Qifu Tech still had some loans with an APR that was higher than 24% in 1H22. All APRs complied with the latest requirement and were below 24% in FY23. This would have some negative impact on y-o-y growth of FY23 revenue but it will not carry on into FY24.

Improving operating margin. On the operation side, we expect a steadily improving operating margin. Apart from the major cost trends we have discussed under "Cost Structure", the company adopts a comprehensive management strategy to improve its operating efficiency. Its comprehensive management strategy includes things like loan duration management, user loyalty management, asset allocation, etc.

Fig 13: Qifu Tech's operating margin



Source: Company, DBS HK

Qifu Technology Inc

Environment, Social & Governance (ESG)

Qifu Technology actively fulfills its ESG commitment by leveraging its technology and platform to create value for society. In response to China's poverty alleviation and environmental protection campaigns, the company has played an enormous role in supporting SMEs, rural revitalisation, epidemic relief, and green financing in 2022.

Qifu Technology provided Rmb124bn in assistance to financial institutions to issue loans to SMEs, with ~60% of the loans going to 3.4m farmers; relief of Rmb410m for clients facing financial burdens during the pandemic; and provided Rmb4bn in assistance to financial institutions for the issuance of green loans. Looking forward, the company intends to continue transferring digital technology to the real economy, supporting the growth of SMEs, penetrating deeper into the countryside, and supporting low-carbon and green financing.

Qifu Technology Inc

Company Background

Established in 2016, Qifu Technology (previously 360 Digitech) is a Credit-Tech platform in China that provides a comprehensive suite of technology services to assist financial institutions and consumers and SMEs in the loan lifecycle, ranging from borrower acquisition, preliminary credit assessment, fund matching and post-facilitation services, with 360 Jietiao app as its primary user interface.

The company is dedicated to making credit services more accessible and personalized to consumers and SMEs through Credit-Tech services to financial institutions, whereby it deploys its technology solutions to help financial institutions identify the diversified needs of consumers and SMEs, effectively access prospective borrowers that are creditworthy through multichannels, enhance credit assessment on prospective borrowers, and manage credit risks and improve collection strategies and efficiency, among others.

Qifu Technology Inc

Management & Strategy

Experienced team and industry experts. Qifu Tech is led by a team of professionals with experience spanning several years across the industry. Management has prompted a review of the company's business structure, fostering a more determined approach to reform and seizing new growth opportunities.

Growth strategies. Qifu pursues the following growth strategies: 1) Further penetration of the consumer credit tech market; 2) advancing its technology and risk management empowerment capabilities; 3) further developing its capital-light model and technology solutions; 4) strengthening its partnership with FI partners; and 5) further developing business in the SME credit tech market.

Key Management Team

Name	Position	Profile
Zhou Hongyi	Chairman	<ul style="list-style-type: none"> - Mr Zhou has served as director from the inception of the company and chairman since 2018 - Mr Zhou has more than 20 years of management experience in China internet industry. He also serves as multiple managerial roles, including the chairman of 360 Group, the co-founder and director of Qihoo 360 Technology (601360 CH, NR), the chairman of Huafang Group (3611 HK, NR), a director of Opera (OPRA US, NR), etc - Mr Zhou received the bachelor degree in computer software in 1992 and the master degree in system engineering from Xi'an Jiaotong University in 1995
Wu Haisheng	CEO	<ul style="list-style-type: none"> - Mr Wu has served as CEO and director of the company since 2019 - Mr Wu has more than fifteen years of management experience in China internet industry. Prior to joining the company, Mr Wu served as multiple managerial and operational roles, including a director of Shanghai Qibutianxia, a product director at 360 Group, etc - Mr Wu received the bachelor degree in economics from Communication University of China and the master degree in communication studies from Peking University in 2005 and 2008, respectively
Xu Alex	CFO	<ul style="list-style-type: none"> - Mr Xu joined the company in 2019 and served as CFO since 2020 - Mr Xu has extensive experiences in capital market, corporate finance and business management. Prior to joining the company, he served as CFO of Shenzhen Qianhai Dashu Financial Services, a director of Qihoo 360 Technology, a managing director at Cowen&Co, etc - Mr Xu received the bachelor degree in applied physics from Beijing University of Posts and Telecommunications and an M.B.A degree from Cornell University. Mr Xu is a CFA charter holder

Source: Company, DBS HK

Company Background

Qifu Technology operated the credit-tech platform of the 360 Group as an affiliate since inception, and has started operating independently subsequent to the establishment of Shanghai Qiyu since 2016. The company provides a comprehensive suite of technology services to assist financial institutions, consumers, and SMEs in their loan lifecycles, ranging from the stages of borrower acquisition and preliminary credit assessment to fund matching and post-facilitation services, with the 360 Jietiao app as its primary user interface. The company primarily derives service fees from its technology solutions that it provides to financial institutions.

Qifu Technology Inc

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Loan facilitation volume (Rmb bn)	357.1	412.4	475.0	522.5	587.1
Revenue take rate (%)	4.7	4.0	3.4	3.5	3.5
Cumulative borrowers (m)	38.5	44.5	49.0	52.9	56.0
D1 delinquency ratio (%)	5.4	4.3	4.2	4.2	4.2
Non-GAAP operating margin (%)	42.3	28.2	32.0	32.7	33.2

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Loan facilitation and servicing fees- capital heavy	2,326	2,086	1,496	1,672	2,008
Financing income	2,184	3,488	4,430	5,191	5,775
Revenue from releasing of guarantee liabilities	5,583	5,899	5,700	6,453	7,250
Loan facilitation and servicing fees-capital light	5,678	4,125	3,306	3,919	4,732
Other revenue	864	956	1,086	808	737
Total	16,636	16,554	16,019	18,043	20,502

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	16,636	16,554	16,019	18,043	20,502
Cost of Goods Sold	(2,590)	(2,878)	(3,209)	(3,591)	(4,080)
Gross Profit	14,046	13,676	12,810	14,453	16,422
Other Opng (Exp)/Inc	(21,306)	(22,880)	(20,689)	(23,191)	(26,227)
Operating Profit	6,786	4,472	4,931	5,715	6,616
Other Non Opg (Exp)/Inc	364	288	348	288	288
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	126	182	220	227	234
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	(254)	(200)	(188)	(188)	(188)
Pre-tax Profit	7,023	4,742	5,312	6,042	6,950
Tax	(1,258)	(737)	(1,062)	(1,208)	(1,390)
Minority Interest	17	19	17	17	17
Preference Dividend	0	0	0	0	0
Net Profit	5,782	4,024	4,266	4,850	5,577
Net Profit before Except.	6,036	4,224	4,454	5,038	5,765
EBITDA	6,817	4,507	4,980	5,770	6,677
Growth					
Revenue Gth (%)	22.6	(0.5)	(3.2)	12.6	13.6
EBITDA Gth (%)	79.4	(33.9)	10.5	15.9	15.7
Opg Profit Gth (%)	79.0	(34.1)	10.3	15.9	15.8
Net Profit Gth (%)	65.4	(30.4)	6.0	13.7	15.0
Margins & Ratio					
Gross Margins (%)	84.4	82.6	80.0	80.1	80.1
Opg Profit Margin (%)	40.8	27.0	30.8	31.7	32.3
Net Profit Margin (%)	35.3	24.6	26.9	27.2	27.5
ROAE (%)	46.8	23.6	21.1	20.9	20.8
ROA (%)	20.0	10.9	9.9	10.1	10.4
ROCE (%)	36.0	17.4	15.3	15.3	15.5
Div Payout Ratio (%)	9.7	14.8	25.0	28.0	30.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

Qifu Technology Inc

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	25	48	60	69	77
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	5,723	6,198	5,619	6,058	6,660
Cash & ST Invt	8,760	10,512	8,135	10,034	12,250
Inventory	0	0	0	0	0
Debtors	16,748	21,198	30,041	32,002	35,753
Other Current Assets	2,249	2,387	2,182	2,182	2,182
Total Assets	33,505	40,343	46,037	50,344	56,922
ST Debt	398	150	750	750	750
Creditors	2,305	6,100	6,848	6,354	7,880
Other Current Liab	11,441	10,500	11,385	11,951	12,706
LT Debt	0	0	0	0	0
Other LT Liabilities	4,145	4,662	5,303	6,426	6,635
Shareholder's Equity	15,204	18,847	21,667	24,779	28,866
Minority Interests	13	84	84	84	84
Total Cap. & Liab.	33,505	40,343	46,037	50,344	56,922
Non-Cash Wkg. Capital	5,252	6,985	13,991	15,879	17,348
Net Cash/(Debt)	8,362	10,362	7,385	9,284	11,500
Debtors Turn (avg days)	331.4	418.3	583.8	627.5	603.1
Creditors Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.6	0.4	0.4	0.4	0.4
Current Ratio (x)	2.0	2.0	2.1	2.3	2.4
Quick Ratio (x)	1.8	1.9	2.0	2.2	2.2
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

Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	7,023	4,742	5,312	6,042	6,950
Dep. & Amort.	31	35	49	56	61
Tax Paid	0	0	0	0	0
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	(10)	20	0	0	0
Chg in Wkg.Cap.	(4,881)	(5,119)	(6,010)	(1,225)	(1,882)
Other Operating CF	3,628	6,245	(658)	(1,009)	(1,190)
Net Operating CF	5,790	5,923	(1,308)	3,864	3,938
Capital Exp.(net)	(25)	(27)	(41)	(45)	(49)
Other Invt.(net)	(6,038)	(7,271)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1)	(58)	0	0	0
Net Investing CF	(6,064)	(7,356)	(41)	(45)	(49)
Div Paid	0	(989)	(1,067)	(1,358)	(1,673)
Chg in Gross Debt	214	(303)	0	0	0
Capital Issues	0	239	(563)	(563)	0
Other Financing CF	2,050	4,256	600	0	0
Net Financing CF	2,264	3,204	(1,029)	(1,921)	(1,673)
Currency Adjustments	(3)	(18)	0	0	0
Chg in Cash	1,986	1,752	(2,377)	1,899	2,216
Opg CFPS (RMB)	N/A	N/A	N/A	N/A	N/A
Free CFPS (RMB)	18.75	18.82	(4.20)	11.99	12.22

Source: Company, DBS HK

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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

Completed Date: 18 Jan 2024 08:38:39 (HKT)

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