

China / Hong Kong Industry Focus

China Fintech Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Sep 2018

Bargain hunting opportunity

- **Speeding up compliance processes is sending a positive signal to the P2P industry**
- **Payday loan segment is suffering from the 36% APR cap**
- **Sector trading at unjustified valuation; offering ~100% share price upside for selected stocks**
- **Remain positive on China Fintech sector; Reiterate BUYs on Lexin (LX US) and Yirendai (YRD US)**

Positive tone from regulators. The sharp drop of 200+ mid and small P2P platforms from the market had led to panic among retail investors in July. China regulators, CBRIC and NIFA had brought forward the deadline to end-2018 from mid-2019 previously to speed up the completion of the compliance processes, referred to as "108 rules". The final list of P2P platforms that can continue to operate will likely be announced in early 2019. This is a positive signal that the government will support legal P2P platforms, to continue to serve within the consumer lending market. This should ease investors' concerns on the sustainability of China's P2P industry.

Implication from US/UK P2P/online lending platforms. We have analysed three US P2P/online lenders - Lending Club (LC US), Prosper (non-listed), Elevate (ELVT US) - and one UK P2P platform, Zopa (non-listed), by comparing their key operating metrics, credit models and default rates, to evaluate their differences and similarities to China's P2P platforms. The matured regulatory systems in the US and the UK has created a high entry barrier for newcomers; the market leaders in both countries dominate with over 40% of the market share. Risks and returns are highly correlated. As the cap on China's APR is 36%, payday loans can hardly make profits given the high default rate (~25%) which proves our view that most of the P2P platforms that failed were exposed to this segment.

Trading at unjustified valuations; reiterate positive stance on the sector. The selling pressure on the sector had escalated since July, with share prices plunging by 15%-61% year-to-date, and the sector is now trading at 5x FY19F PE, close to -1 S.D. below its three-year average. The huge valuation gap between listed players at 5x FY19F PE and our estimated valuation for Lufax at 25-29x FY19F PE is unjustified. Given VIPShop (VIPS US) trades at 15%-70% discount to Alibaba (BABA US)'s PE multiple and Elevate trades at 53% discount to Lending Club's PE, we believe a fair multiple for the sector should be 8x PE, conservatively pegged at a 70% discount to Lufax to account for its market leadership position. This implies ~100% share price potential upside for selected stocks trading at nearly 4x PE.

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US/UK/China P2P/online lenders

US P2P: Lending Club/Prosper; online payday loan lender: Elevate



UK P2P: Zopa



China P2P: Yirendai, Hexindai, PPDai, China Rapid Finance; online consumer loan lender: Qudian; P2P+installment loan: Lexin; online loan/credit card referral platform: Jianpu

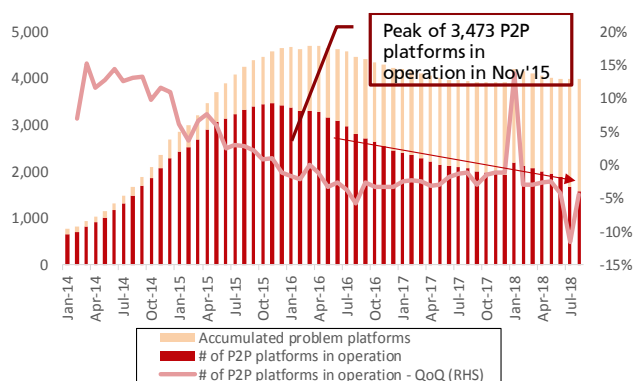


Source: Company, DBS HK

Positive on government support for legal P2P platforms to operate

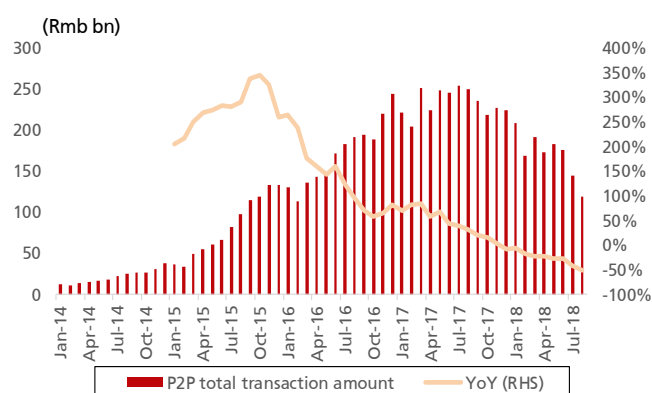
The sharply decline of P2P platforms has caused market panic. Due to the previous extension of P2P regulation processes for one more year to June 2019, the total number of China's P2P online platforms dropped sharply by 218 to 1,662 in July 2018, as they are facing a liquidity crunch from the withdrawal of investment funds by retail investors and borrowers being unwilling to repay loans. This has triggered market concerns on whether the whole industry will be adversely impacted by lack of funding sources and potentially high default rates. P2P's transaction amount had dropped 28% y-o-y to Rmb119bn YTD August, especially in July/August when volume declined sharply by 43%/52% y-o-y.

Fig 1: P2P platforms' closure accelerates



Source: WIND, DBS HK

Fig 2: P2P transaction amount trending down further



Source: WIND, DBS HK

A series of regulations has been announced to lower P2P industry risks. As industry-wide panic has escalated, the National Internet Finance Association (NIFA) in August 2018 rolled out 10 measures to curb rising risks caused by the troubled P2P platforms, including 1) the requirement for local governments to set up "communication windows" to respond to requests by P2P investors and conduct compliance inspections on P2P companies, 2) strictly disallowing any new P2P companies or online finance platforms to be set up, and 3) blacklisting borrowers who fail to repay their P2P loans in CCRC and Credit China, China's social credit rating systems, which would have the law enforcement and prevent the default rate from deteriorating further. We believe the connection with the CCRC and Credit China system would somehow pressure borrowers to repay. Otherwise they would face negative consequences, such as not being able to obtain loans from other platforms or FIs, cannot use the public transportation or check-in hotels, etc.

Compliance processes are set to complete by end-2018. On 17 August 2018, Internet Lending Financial Risk Management Working Leadership Group and CBIRC co-announced that they would complete all the P2P compliance processes under "108 rules" by the end of December 2018, which is ahead of the original plan of June 2019. The announcement indicates the government's strong support for legal P2P platforms to continue operating once the registration processes are completed, and to facilitate illegal platforms to exit the market, as well as sends positive signals to support the healthy development of the P2P industry. The "108 rules" include 1) P2P platforms only can raise money from investors to lend to borrowers rather than for their own use, 2) not offering implicit guarantees on investors' principal and return, 3) not providing illegal loans to controlling shareholders or affiliates, 4) no duration mismatch between investors and borrowers, and 5) disclosing information on loan facilitation by month, etc.

Based on our checks with PPDai (PPDF US, NR), the "108 rules" are basically aligned with Shanghai local governments' "168 rules". Although the final list of qualified P2P platforms may be announced only in early 2019, all platforms should know whether they have passed the P2P checks by the end of 2018. Given that regulation is the biggest overhang for the sector, we believe the acceleration of compliance processes would regain investors' confidence on industry consolidation. We expect only 300 platforms to survive (out of the current ~1,600) and regain growth momentum once the regulation is finalised and consolidation is completed.

Fig 3: P2P regulation updates

Date	Regulator	Regulations	Key rules
Dec-17	PBOC, CBRC	Internet Finance/P2P special working group's notice on regulating P2P industry	- Suspension of granting new license to any P2P platforms and platforms operating after Aug 24, 2016 are not allowed to get the regulator's approval this time. Require local governments to finish the examine and registration of qualified P2P platforms in April 2018 and no later than June 2018. - The stated borrowing rate should be converted to "annualized" rate and capped at 36% including fees. No illegal fund raising and transaction or transfer of credit assets via Internet platforms or local exchanges are not allowed. - More restriction is given to Internet loan purpose. Loan should not be utilized to "student-loan", "down-payment for property" and investment speculation. - Customers information should not be abused and traded illegally, and no debt collection is involved in threatening violence. - P2P platforms violate the regulation issuing on Aug'16 regarding to the cap of borrowing amount for individual/company are unqualified for registration.
Apr-18	PBOC	Notice on selling wealth management products through online platforms	- Non-financial institutions cannot sell WMPs, unless get the license from regulators. - Without permission, online operators selling WMPs must immediately stop. The remaining amount of WMPs should be disposed to zero before the end of June 2018.
May-18	CBRC, PBOC, SAIC, MPS	Circular on Regulating Private Loan Behavior to Protect the Economic	- Without approval by the related authority, any companies or individuals cannot set up or engage in any loan distribution. - Private lending must strictly abide by the relevant regulations. Funding must come from legitimate sources, and it is forbidden to absorb other people's funds for lending. - Crack down on the illegal absorption of public deposits and treats on collecting loans. Ban on illegal distributing loans to students, non-designated loans, or charging high interest rate. Forbidden for employees of financial institutions to act as member or controllers for private lending.
Apr-18	PBOC	Notice on selling wealth management products through online platforms	- Non-financial institutions cannot sell WMPs, unless get the license from regulators. - Without permission, online operators selling WMPs must immediately stop. The remaining amount of WMPs should be disposed to zero before the end of June 2018.
Jul-18	NIFA	Implement the next phase of work arrangements for special rectification	- Extend P2P compliance processes to another one-to-two year - Combat illegal financial activities, such as illegal fund-raising, marketing and commercial fraud - Strengthen information disclosure, contract registration, risk notification to enhance the transparency of the entire processes of Internet Finance services.
Aug-18	NIFA	Notice on submitting P2P borrowers to escape debt	- Request P2P platforms to submit a list of borrowers who deliberately escape from the loan to wait for P2P platforms to close due to liquidity crunch. - Report borrower's name, borrowing platform, accumulate loan amounts, overdue loan, overdue date and loan collection etc. - The list of overdue loan borrowers would be included in CCRC and CreditChina database, and might face criminal law.
Aug-18	NIFA	Ten measures to deal with online lending risks	- Setup "communication windows" to respond the requests by P2P investors. Local governments establish communication mechanism to improve P2P operating transparency and respond the demands. - Conduct compliance processes for online lending platforms and provide guidance for legal operations. - Guide online lending platforms to mitigate liquidity risks through M&A, selling assets and cooperating with financial institutions. - The exited online lending platforms should create a liquidity redemption plan and the shareholders shall have jointly liabilities. - Establish a reporting system to clarify the withdrawal procedures, standardize asset disposal and debt settlement, and ensure the legal rights of the lenders are not infringed - Strictly combat the online lending platforms which are maliciously closed up. - Combat borrowers who are deliberate intend to escape from the loan which will be pit on a blacklist in CCRC and CreditChina database
Aug-18	Internet Lending Financial Risk Management Working Leadership Group and CBIRC	108 rules for P2P platforms to comply with	- Self-review "108 rules" by P2P firms and inspections by local financial regulators, which must be completed by the end of Dec 2018 - "108 rules" include whether P2P platforms raised money from investors to lend to borrowers rather than their own use, not offering implicit guarantees on investors' principal and return, not providing illegal loans to controlling shareholders or affiliates, no maturity mismatch between investors and borrowers, monthly loan facilitation and borrower/investor disclosure, etc.

Source: CBRIC, PBOC, NIFA, DBS HK

Implication from US/UK online lending players

Although the world's first P2P platform, Zopa, was established in the UK in 2005, while both Prosper and Lending Club (LC US) were founded in the US in 2006/2007, the strong development of P2P industry has been actually in China. Many investors are curious about how China's P2P platforms differ from their US/UK counterparts in terms of interest rate charge, delinquency rate, risk appetite and valuation, etc. We study three US P2P/online lenders, including Lending Club (LC US), Prosper (non-listed), Elevate (ELVT US), and one UK P2P platform, Zopa (non-listed), to compare their differences and similarities with China's P2P platforms, in terms of key operating metrics, credit models and default rates.

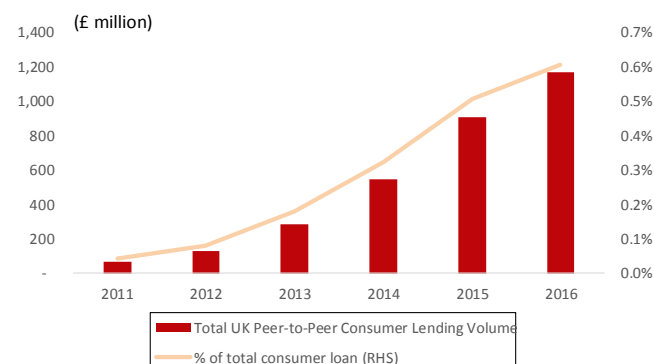
UK consumer online lending market was worth £1.2bn in 2016, with a 29% y-o-y growth, and represented 0.6% of total consumer loans, according to Cambridge Centre. Its P2P lending industry is regulated by Financial Conduct Authority (FCA) whose regulatory framework has been designed to achieve the following key objectives:

- Minimum capital requirement ranging from 0.05-0.2% of total loans issued and outstanding.
- Promote effective competition within the P2P lending industry and allow the growth of the industry to continue in a controlled way.
- Ensure platforms provide clear and not misleading information, and have appropriate procedures for handling clients' money.
- Ensure firms deal appropriately with customers in financial difficulties and complaints. Borrowers will also be given a mandatory 14-day 'right to withdraw' during which they can cancel their loan agreement without penalty.
- Ensure platforms maintain a stable financial position and have contingency arrangements in place in the event of a platform failure
- Enable investors to make a claim for tax relief on losses directly (no reserve funds from P2P platform)

The FCA took over regulatory duties in April 2014, and since then, several firms have exited the market as the cost of compliance was too great a burden. To date, there are around 100 P2P platforms in UK but the top two players, Zopa and RateSetter, still dominate the market with around 76% of the market, based on AltFiData. Given a matured regulatory environment, newcomers would find it tough to break into the market. Hence, the credible platforms will not be saddled by those unfit players and will be able to facilitate lending fairly and safely. The FCA regulations (UK investors' protection rules) on matters such as providing clear information, complaint handling, and promoting a sound P2P environment are aligned with China's current regulatory direction. The more stringent rules include the requirement for P2P platforms in the UK to have a minimum capital, to offer borrowers a 14-day right to

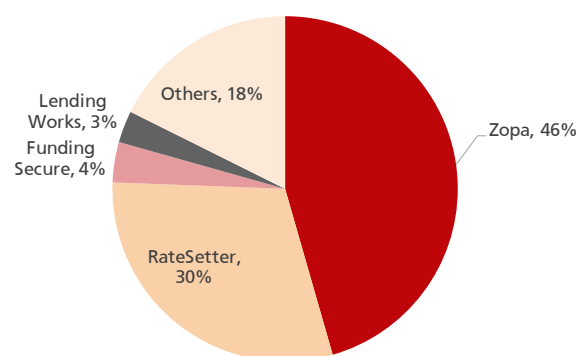
withdraw, and to allow investors to make a claim for tax relief on losses. These are the more advanced rules that the Chinese regulators could consider after the first round of compliance processes are completed..

Fig 4: UK online consumer lending market



Source: Cambridge Centre, DBS HK

Fig 5: UK consumer online lending platforms share



Source: AltFi Data, DBS HK estimates

Zopa, the first P2P with market share 46% in UK, a pure marketplace model. As the first P2P player in the world and established in UK in 2005, Zopa is targeting borrowers who have a credit history and good track record of repaying debt. Based on AltFiData, Zopa commands ~46% share in UK's consumer online lending market. The high market share was likely aided by the company's early-mover advantage and the established online lending regulations which make it hard for newcomers to break into the market.

Zopa offers borrowers loans of £1,000-25,000 (averaging £7,700) with tenures of 1-5 years and loan usage mainly for car purchases, home improvement and debt consolidation. Its APR charges range from 3.2-34.9% (averaging 10%) based on six credit scoring levels from A* to E, according to risk levels. Buyers with A* and A credit scores have a well-established credit history and low debt-to-income level, while D and E borrowers have a limited credit history. Zopa charges borrowers loan facilitation fees depending on loan size, tenure and credit scoring. Retail investors enjoy 4.5-5.2% (Zopa Core 4.5%, Zopa Plus 5.2%) annual returns based on their assumption of borrowers' risks. Zopa charges an origination fee to help cover the cost of setting up the loan, loan servicing fee to each loan contract, and 1% fee from investors who want to sell loans to access their investments quickly.

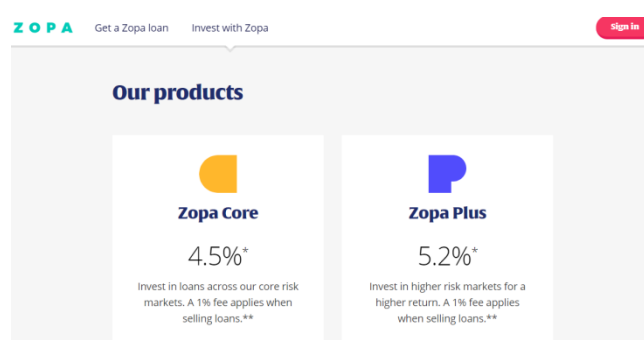
Fig 6: Zopa's loan application page

How do I apply?

- 1 Choose**
We offer loans from £1,000 - £25,000 over 1 to 5 years.
- 2 Review**
See your personalised loan rates in 3 minutes.
Just fill in our simple form to tell us a few details about you and your circumstances. Don't worry, this won't affect your credit score.
- 3 Apply**
Get a decision within 2 working days.
If approved, the money will be with you 3 working days later.
In a hurry? You can always choose our Fast Track option for £10.

Source: Company, DBS HK

Fig 7: Zopa's investment portfolio

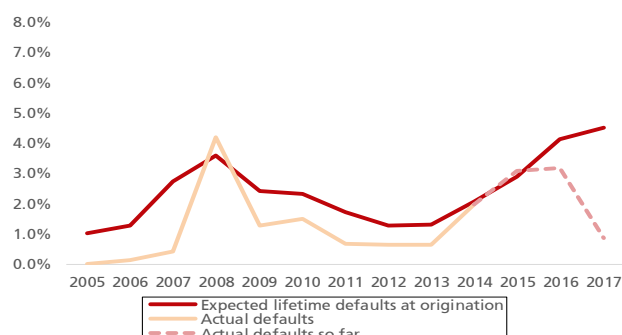


Source: Company, DBS HK

Zopa's investors bear default risks, ~2%. As a pure marketplace model, Zopa does not assume balance sheet risks. Investors bear the losses on their own. As investors lend out small amounts to many different borrowers, if one borrower cannot repay, they are less likely to lose all of their capital, although their annual returns might be impacted. On the other hand, UK's regulator has not allowed P2P platforms to set reserve funds since December 2017. Thus once investors incur losses, they can make a claim for tax relief. The default rate on Zopa's platform is around 2%.

In our view, Zopa basically serves prime borrowers who have a credit history and an APR charge of around 10%, while investors invest in a batch of loans at returns of 5% to protect investors in the event of any single default. As the nature of its business model is to target the prime segment, it has the benefit of using credit records to screen out borrowers. Hence, the default rate is controllable at 2%. Based on our calculation, Zopa could enjoy a ~3% spread (10% APR minus 5% return and 2% defaults).

Fig 8: Zopa's expected defaults vs actual defaults



Source: Company, DBS HK; represent life-time default rate

Fig 9: Zopa's APR/investor return trend

	2011	2012	2013	2014	2015	2016	2017
Amount lent by retail investors (£ million)	57.6	87.1	181.8	243.7	268.3	400.3	280.9
Actual annual return to date of loans in origination year (after fees and bad debts)	5.9%	5.7%	4.8%	4.6%	4.9%	4.8%	5.8%
Estimated annual return (capital weighted average loan interest rate minus expected principal loss and any fees) at origination	5.2%	5.2%	4.5%	4.4%	4.8%	4.9%	4.7%
Borrower APR (capital weighted by year of origination)	8.9%	8.5%	7.0%	7.4%	7.8%	9.9%	10.3%

Source: Company, DBS HK

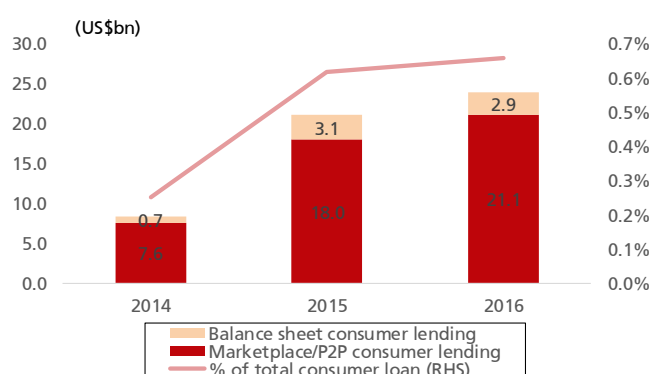
US consumer online lending market was worth US\$24bn, +14% y-o-y, in 2016 and represented 0.7% of total consumer credit, according to Cambridge Centre. US marketplace lenders (MPLs) have evolved into structured networks from pure retail investors who offer loans to retail borrowers, to partnership with institutional investors and banks, engaging in both direct lending and securitisation transactions.

Given the complicated transaction processes, MPLs operate in a complex and extensive regulatory environment which is subject to multiple layers of laws instead of one regulation at the federal level. P2P lending involves the action of lending and issuing securities, which means that related lending and securities industries' regulations are applicable. The Securities and Exchange Commission (SEC) is the main regulator, and the Consumer Financial Protection Bureau (CFPB) takes charge of consumer protection. State securities regulators and state department of financial institutions are responsible for detailed regulation works within each state.

- Mandating all MLPs to register with the SEC since inception. Loans structured as notes sold by MPLs need to be reported to the SEC.
- MPLs need to partner with FDIC-insured banks for lending to offer borrowers the same level of protection as traditional banks' borrowers, such as Lending Club's partnership with WebBank.
- High disclosure standards according to the SEC's rules, including loan originations, number of borrowers and investors, and charge-off rates, etc.
- Required to comply with the federal Fair Debt Collection Practices Act (FDCPA) in collecting from borrowers with delinquent accounts.
- Keep customers' personal information securely and protected from unauthorised access.

As the lending and securities industries are highly regulated in the US, its strong functional regulatory framework makes it the strictest market as compared to UK/China in regulating P2P lending, emphasising on compulsory registration system and constant information disclosure management. But this also makes the US P2P lending market orderly, in our view.

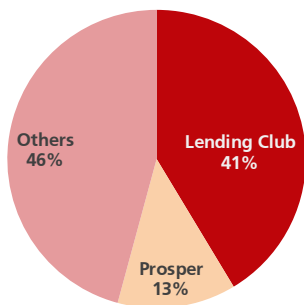
Fig 10: US consumer online lending market



Source: Cambridge Centre, DBS HK

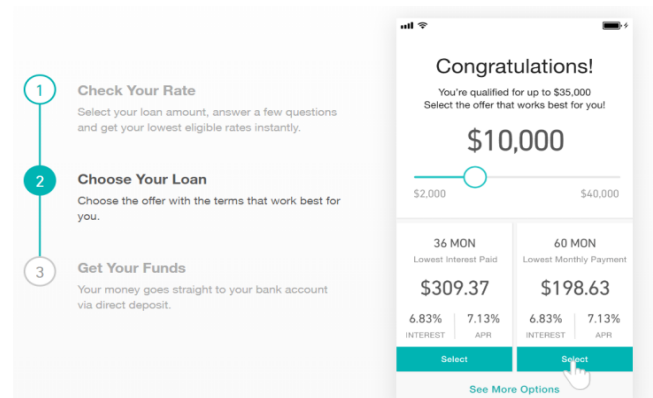
Lending Club/Prosper, pure P2P platforms, accounted for 50% market share in US. Lending Club and Prosper's business models are quite similar. Both platforms mainly provide unsecured consumer loans, but also offer student and SME loans. Their average loan size is around US\$13,000-14,000 with APR of 5-36% and loan tenure of 3-5 years. Investors' annual return is around 4-11% based on risk tolerance. Revenue comes from loan origination fees of 1-5% from borrowers and investor service fees of 1%. Lending Club and Prosper are the two largest P2P players in the US with 41%/13% market shares respectively in 2017, controlling more than 50% of the US online consumer lending market.

Fig 11: US consumer online lending platforms share



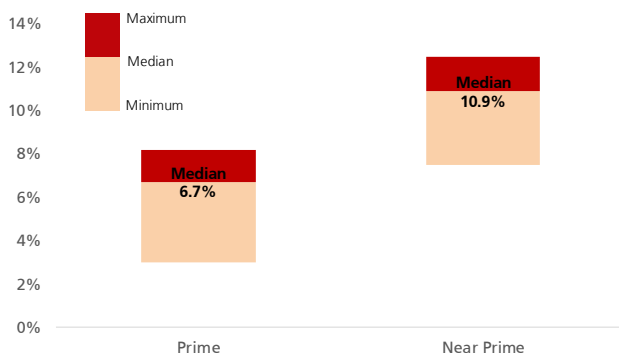
Source: Cambridge Centre, Company, DBS HK

Fig 14: Prosper's loan application process



Source: Company, DBS HK

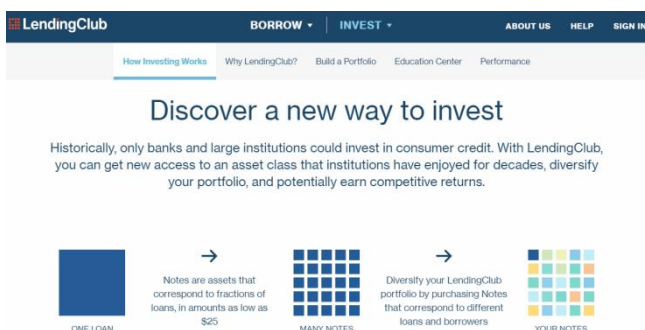
Fig 12: Lending Club's investor returns by borrower type



Source: Company, DBS HK; data as of Oct 2017

FICO score is a primary source for Lending Club/Prosper's credit model. Given the minimum FICO score required for their borrowers is 640-660, Lending Club and Prosper are mostly focusing on prime to upper-level near-prime groups with loan distribution ratio of around 80%/20%. Both these companies assign a grade to their borrowers in terms of credit quality and underlying risk based on the borrowers' FICO scores, application data, credit history, online behaviour, etc. Credit losses are borne by investors as the platforms do not assume direct capital risk on loans. However, the monitoring of credit quality is a key factor to attract both retail investors and institutional funding. The delinquency rate for 30-day overdue loans is 2-3%, and charge-off rate is 8-10% for 36-month loans and 15% for 60-month loans is 15%.

Fig 13: Lending Club's notes investment



Source: Company, DBS HK

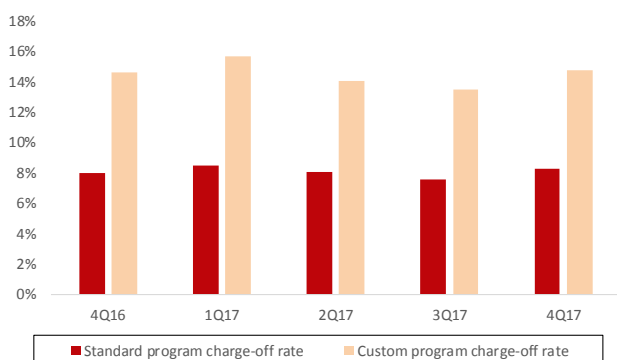
Fig 15: FICO score

What your FICO® Score means to lenders:



Source: Company, DBS HK

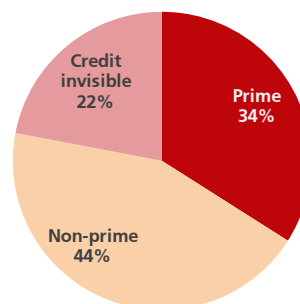
Fig 16: Lending Club's charge-off rate



Source: Company, DBS HK

Elevate, a niche player focusing on the sub-prime market. In contrast with Lending Club/Prosper which focus on the prime market, Elevate, established in 2013, targets non-prime borrowers with FICO scores of between 513 and 630 in the US/UK. Elevate funds a portion of loans with its own balance sheet and other funding sources such as banks. Its loan size is smaller and tenure is much shorter than Lending Club/Prosper's with an extremely high APR of over 100%, which is more like payday loans. In US, payday loans can charge up to 700% APR. There are 170m potential non-prime and no-credit borrowers in the US and UK alone, out of which Elevate has served 1.9m since its inception.

Fig 17: US non-prime population larger than prime



Source: Company, TransUnion, FICO, DBS HK

Fig 18: Elevate's product offering

Product	Rise	Elastic	Sunny
Launched	2013	2013	2013
Product type	Installment and line of credit	Line of credit	Installment
Geographies served	US 17 states	US 40 states	UK
Loan size	US\$500-US\$7K	US\$500-US\$3.5K	£100 to £2.5K
Loan term	4-26 months	up to 10 months	6-14 months
Pricing	36%-299% annualized	Initially 5% per US\$100 borrowed puls up to 5% of outstanding principal per billing period	10.5%-24% monthly
Effective APR	141%	97%	237%

Source: Company, DBS HK

Fig 19: Elevate's Sunny loan product in UK

sunny LOGIN

A Sunny loan can range from £100 – £2500. The interest rate and repayment term of your loan will vary depending on the amount borrowed.

Loan Range	Monthly Rate	Loan Term
£100 - £1000	24.0% (Based on a 30 day month)	6 Months
£1100 - £1500		
£1600 - £2000		
£2100 - £2500		

APPLY NOW

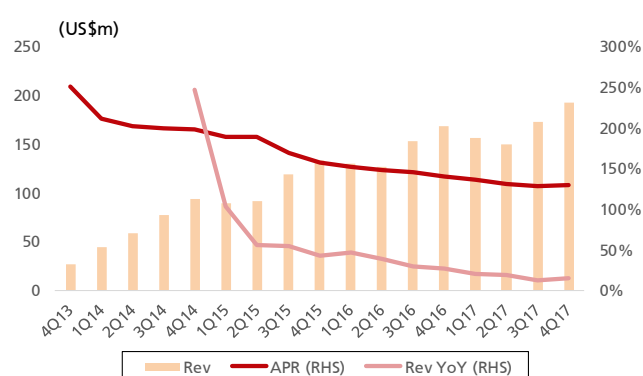
Representative example

Borrow	£200 for 6 months
Interest rate	292% pa (fixed)
6 repayments of	£63.33
Total amount repayable	£380.06
Representative	1293% APR
	Max APR 1617%

Source: Company, TransUnion, FICO, DBS HK

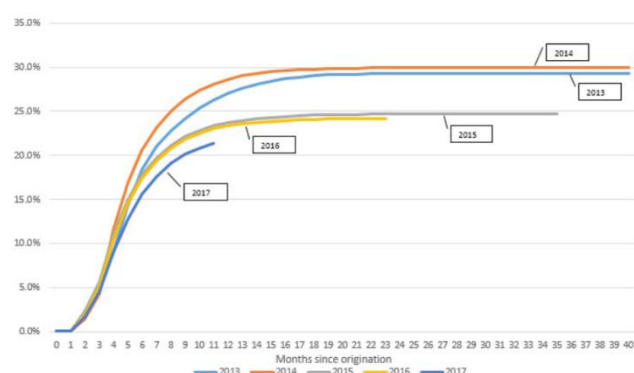
High APR = high risk profiles = high default rate. As non-prime borrowers do not have credit records, they are more likely to have higher default rates. Hence, Elevate charges a lofty APR of 97-226% (average APR of 131%) and its loan tenure is less than a year. The high APR charge is due to 1) high funding cost of 15%, 2) new customer acquisition cost of US\$250-300 per borrower, or 50-60% of costs based on loan size, 3) high default rate at 25-30%. Repeat customer rate is 50%. Once borrowers build up a good repayment record, the APR charged would be gradually reduced, as also demonstrated by Elevate's APR trend in Figure 20. Although APR trended down from 251% in 2013 to 131% in 4Q17, Elevate's top line continued to grow at a 35% CAGR in 2014-17 helped by the increase in number of borrowers and loan size.

Fig 20: Elevate's APR vs revenue trend



Source: Company, DBS HK

Fig 21: Elevate's charge-off rates by loan vintage



Source: Company, DBS HK; Elevate's target charge-off rates: 25-30%

Rectification is good for P2P's industry development. The P2P industries in UK (2005) and US (2006) were established only slightly earlier than in China (2007), but the related regulations announced and revised throughout the industry's growth in the UK and the reliance on existing laws and regulations to supervise the industry in the US have set up a high entry barrier

for newcomers and protect borrowers/investors. In 2008, when the US SEC required P2P companies to register their offerings as securities, the registration process was so demanding that Prosper and Lending Club had to temporarily suspend their offering of new loans. Others, such as the UK-based Zopa, exited the US market entirely. However, eventually, Lending Club and Prosper gained approval from the SEC to offer investors notes backed by payments received from the loans, and both of them now command more than 50% share of the US P2P market.

China, which previously lacked regulations on P2P, saw several unwanted incidents including violence during collection, high APR charged and high defaults, malicious bankruptcy, Ponzi schemes, etc. The regulators have since announced a series of regulations to rectify the industry and the compliance processes are set to be finalised at the end of 2018. Although it would be a pain for the market players in the near term, this would be good for the industry's consolidation and future development.

It's always about risk. Risk and return are basically one body with two sides. A higher APR charge means higher default rates and vice versa. Borrowers with better credit scores tend to have lower default risks, which means P2P/lending platforms cannot charge them a high APR and hence investors' returns would be low. Elevate provides payday loans for non-credit borrowers with APR of 131% but its current default rate is as high as 25-30% and investors are asking for a 15% return. Zopa facilitates loans for borrowers who have credit records and good repayment history, thus it can only charge APR of 10% with 2% defaults and investors' return of 5%. As China's regulator caps APR at 36%, the business model for online payday loan has no room to survive given its high defaults. We expect most of the P2P platforms that withdraw from the market to be those that offer small-ticket loans (also known as payday or cash loans), as they do not enjoy economies of scale and operating leverage in the P2P space in China.

No risk taking for P2P facilitators. In US/UK, investors are obligated to assume their own risks. What the P2P platforms do is to 1) predict expected defaults and fully disclose to investors the historical gap between expected and actual defaults (such as Zopa), 2) split investors' investment amount to several loans/notes to lower the impact from any single default, and 3) continue improving credit models to select borrowers who are less likely to default on their loans. Another interesting fact we discovered is that high-risk borrowers are more suitable for loans from institutional funding or the platform's own cash (such as Elevate) instead of retail funding, as the default rates are too high for retail investors to bear.

Fig 22: US/UK P2P credit models, delinquency rate, and charge-off comparison

	Lending Club	Prosper	Elevate	Zopa
Primary source of user data	- FICO scores - Application data - Online footprint - Loan history behavior, economic factors, prepayment trends	- FICO scores - Application data	- Application data - website behaviour, bank account, social media, email and phone number etc.	- Borrowers' credit history - Application data
Credit model	Assigned borrowers by 35 loan grades, from A1 to G5 based on risk profile, loan term and loan amount; use 10K+ attributes reviewed per borrowers and 109 variables in the model applying machine learnings technology	Separate borrowers from AA to HR (AA, A, B, C, D, E, HR) ratings	Use Hadoop database composed of >10K potential data variables related to >1.9m customers and 6.5m applicants	Separate borrowers from A*, A, B, C, D, E ratings
Delinquency rate	~3%	2-3%	<20%	0.5%
Definition of delinquent loans	Delinquent loans contain loans 31 days or more past due	Loans delinquent for 30 days	Loans delinquent for 30 days	Loans delinquent for 45 days
Charge-off rate	8%-10% for standard loan program (36M); 14%-18% for custom loan program (3-5Y)	8%-10% for 36M loans, 15% for 60M loans	~25%	2%-4%
Charge-off policies	Loans more than 120 days overdue	Loans more than 120 days overdue	Loans more than 60 days overdue	Loans more than 120 days overdue

Source: Company, DBS HK; as of 2017

Fig 23: US/UK P2P players- key operating metrics

	Lending Club	Prosper	Elevate	Zopa
Code	LC US	n.a.	ELVT US	n.a.
Market cap (US\$)	1.72B	n.a.	398m	n.a.
Model	Online lending	Online lending	Loan origination and distribution	Online lending
Product	Personal loan, business loan, auto refinancing, patient solutions	Unsecured personal loans	Rise- installment loan in US, Elastic- credit line originated by a 3rd party bank, Sunny- installment loan in UK	Unsecured personal loans
Customer source	100% online	100% online	100% online	100% online
Loan resources	Retail investors 13%, Institutional 13%, Bank 42%, Managed accounts 29%, Structured products 3%	Retail and institutional investors	Own cash and bank	Retail investors and institutional partners
Target borrowers	Min FICO credit score 660; Median income- US\$62K	Min FICO credit score 640; avg FICO score- 710 and annual income US\$78K	170m non-prime borrowers in US and UK. FICO scores between 513-630; annual income US\$58K for Rise, US\$41K for Elastic and £17K for Sunny	At least 20-year-old, credit history, good track record of repaying debt, income at least £12K per year
Active borrowers (k)	n.a.; over 2.5M borrowers YTD	n.a.; 825K since inception	1.1m active borrowers; 1.9m borrowers since inception	331K borrowers
Loan origination (US\$m)	8,987	2,900	376	£3.55 billion since 2005; £996m for the past 12 months
Loan outstanding (US\$m)	11,913	3,700	320	n.a.
Avg loan size	Avg loan size- US\$13K Personal loan: <US\$40K Business loan: US\$5K-US\$300K Auto refinancing: US\$5K-US\$55K Patient Plan: US\$500-US\$50K	US\$14K (ranging from US\$2K-US\$35K)	US\$500-US\$7K for Rise; US\$500-US\$3.5K for Elastic; £100-2.5K for Sunny	£1K-£25K; avg £7.7K
Avg loan duration	3-5 years	3-5 years	4-26 months for Rise; up to 10 months for Elastic; 6-14 months for Sunny	1-5 years
APR	5.32%-30.99% based on loan grade	5.99%-36% for first time borrowers	97%-226%; avg 131% in 2017 (down from 251% in 2013)	3.1% to 34.9%
Repeat customer ratio	n.a.	n.a.	50%	n.a.
Investors type	Invest amount starting from US\$25; products include notes, securitization, whole loan purchases	Invest amount starting from US\$25; products include notes and whole loan purchases	n.a.	Avg invest amount £13K
Investors	Retail investors 180K+, banks 40+, institutions 70+, managed accounts 60+	n.a.	n.a.	60K
Investment return	4%-10% target return	4.32%-11.25%; avg 6.84%	n.a.	4.2%-15.7%; avg ~5%
Funding costs	n.a.	n.a.	15%	n.a.
Customer acquisition cost	2.56%	n.a.	US\$250-300/borrower	n.a.
Revenue source	Loan origination fees 1%-6% (avg 5%) from borrowers, investor service fees 1%, and sales of loans	Loan origination fees 1%-5% from borrowers, investor service fees 1%, net interest income from Notes channel, ~1%	Interest spread (APR- funding cost), fees from third-party lenders	Origination fee, loan servicing fee and 1% fee if investors want to access investment quickly

Source: Company, DBS HK; as of 2017

Unjustified valuation

The previous delay in compliance processes and the mass withdrawal of mid-to-small P2P platforms from the market in July triggered investors' concerns on the P2P industry's sustainability. The escalation in selling pressure for the whole sector was reflected in the 15-61% YTD drop in shares prices of Yirendai (YRD US), Lexin (LX US), PPDai (PPDF US), Qudian (QD US), China Rapid Finance (XRF US) and Hexindai (HX US). The sector is trading at only 5x FY19 PE, close to -1SD below its 3-year average of 4x PE. We believe the valuation is unjustified given the sector's strong earnings potential after compliance processes and industry consolidation are completed, where only 300 players (vs c. 1,600 previously) are expected survive.

As we had discussed in the previous published report "[China Fintech Sector report- Snooping around- a visit to Lufax, PPDai, Ant Financial, Huifu Payment](#)", Lufax is eyeing a US\$50-60bn market cap with an IPO targeted for 2H19. According to WDJZ, Lufax's 2017 earnings were around Rmb5bn and are expected to reach Rmb10bn in 2018 which could also be supported by PingAn's internet financing earnings (fig 26). Assuming that Lufax posts earnings growth of 30-50% in 2019, its earnings would reach Rmb13-15bn (or US\$1.9-2.2bn), and would imply an FY19 PE of 25-29x.

The huge multiple gap between Lufax and listed players is unjustified. Firstly, we could argue that the unlisted company does not have liquidity and will not directly reflect the current regulation headwind. This is also the reason that Lufax postponed its IPO schedule from 1H18 to 2H19 to await the completion of P2P registration processes. Secondly, as Lufax is the largest online lending platform in China with loans under management of Rmb314bn (+39% y-o-y) in 2H18, of which unsecured loans made up 45% or Rmb141bn, ~3x larger than Yirendai's Rmb46bn, the company would enjoy the premium of being the industry leader.

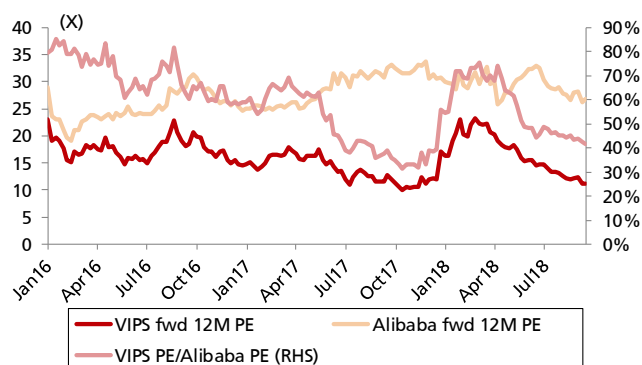
However, we take Alibaba (BABA US) and VIPShop (VIPS US) as benchmarks to compare their 12-month forward PE multiple trend. Although Alibaba's gross merchandise value (GMV) is 14x higher than VIPShop's, in terms of PE, VIPShop has historically traded at a 15-70% discount (average of 41%) to Alibaba in the past three years. On the other hand, both Lending Club (LC US) and Elevate (ELVT US) turned profitable in FY18 and trade at 17x/8x FY19F PE respectively. As Lending Club account for 41% of market share, it trades at a premium compared to Elevate, which is trading at a reasonable ~53% discount, in our view. Thus, as current listed fintech companies are trading at only ~20% of Lufax's PE, we believe they are undervalued. Assuming we plug in a higher-band discount of 70%, the fair trading multiple for the sector should be at 8x which in line with its 3-year average PE. This basically suggests a ~100% share price upside for those fintech platforms that are trading at nearly 4x PE.

Fig 24: China Fintech sector's 12M forward PE bands



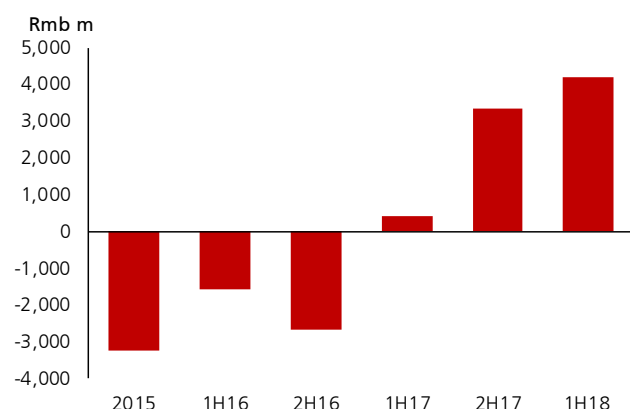
Source: Bloomberg Finance L.P., DBS HK, companies include Yirendai, Qudian, Hexindai, PPDai and Lexin

Fig 25: Alibaba vs VIPShop's trading PE



Source: Bloomberg Finance L.P., DBS HK

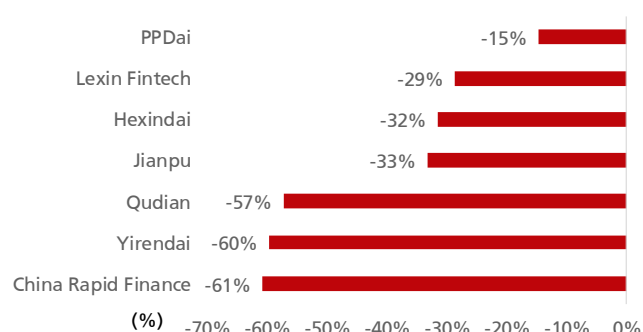
Fig 26: PingAn (2318 HK)'s internet financing earnings mostly contributed from Lufax



Source: Company, DBS HK; Internet finance business represents business from Lufax, PingAn GoodDoctor, and Finance One Account

We also like Yirendai as it is one of the industry leaders in large-ticket loans which was a complementary channel for banks, and its prudent provisioning policy to provide earnings upside. Despite the recent hiccup amid the business adjustment amid the regulatory requirement, we are positive on Yirendai's strategic partnership with institutional investors such as Goldman and XinWang Bank to diversify funding sources, and Baidu to drive online loan facilitation growth, as well as to extend the offline referral with CreditEase to smooth the transfer process. We believe Yirendai will resume growth momentum in FY19F once the industry consolidation is completed and expect its FY19-20F earnings growth at 34% CAGR. We maintain our TP at US\$24, based on 8x FY19F PE, in line with its 3-year average PE.

Fig 27: YTD share price performance



Source: Bloomberg Finance L.P., DBS HK, Data as of Sep 20

We remain positive on China's fintech sector given its untapped market potential which is 8-10x larger than the current size of Rmb1tr size. Lexin (LX US) and Yirendai (YRD US) are our BUYs within the sector. We like Lexin as 1) it operates a close-loop platform combining e-commerce and financing/installment services which matches the consumption scenario-based concept. 2) The high customer stickiness helps keep its acquisition costs lower than peers and it also enjoys low funding costs through the mix of P2P investors and banks. 3) Lexin is focused on high-quality borrowers with low default risks. Thus, its delinquency rate and charge-off rate are quite stable at the 1.4%/2% levels. We expect Lexin to enjoy an earnings CAGR of 136% in FY18-20F given its first-mover advantage on installment loans, stabilised asset quality on the back of a solid credit model, and economies of scale. Reiterate BUY and a target price of US\$21, based on 10x FY19F PE, or 0.5std above the industry's 3-year average.

Industry Focus

China Fintech Sector

Fig 28: Yirendai fwd 12M PB bands



Yirendai fwd 12M PE bands



Yirendai fwd 12M PS bands



Source: Bloomberg Finance L.P., DBS HK

Fig 29: Lexin fwd 12M PB bands



Lexin fwd 12M PE bands



Lexin fwd 12M PS bands



Source: Bloomberg Finance L.P., DBS HK

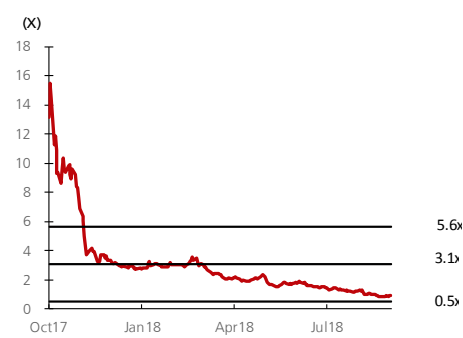
Fig 30: Qodian fwd 12M PB bands



Qodian 12M PE bands



Qodian fwd 12M PS bands

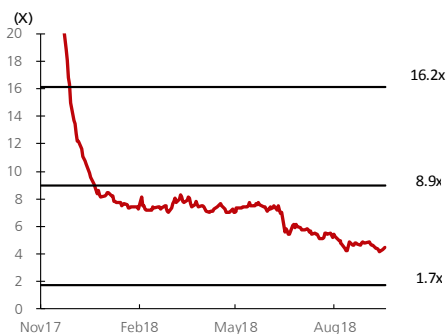


Source: Bloomberg Finance L.P., DBS HK

Fig 31: Hexindai fwd 12M PB bands



Hexindai 12M PE bands



Hexindai fwd 12M PS bands



Source: Bloomberg Finance L.P., DBS HK

Fig 32: PPDai fwd 12M PB bands



PPDai 12M PE bands



PPDai fwd 12M PS bands



Source: Bloomberg Finance L.P., DBS HK

Fig 33: China Rapid Finance fwd 12M PB bands



China Rapid Finance fwd 12M PS bands



Source: Bloomberg Finance L.P., DBS HK

Fig 34: Jianpu fwd 12M PB bands



Jianpu fwd 12M PS bands



Source: Bloomberg Finance L.P., DBS HK

Peer comparison

Coverage	Ticker	price (LC)	Stock rating	Target Price (LC)	Mkt Cap (US\$ m)	PBV			PEV			PSV			ROE			EPS CAGR 18-19F (%)
						FY17 (X)	FY18F (X)	FY19F (X)	FY17 (X)	FY18F (X)	FY19F (X)	FY17 (X)	FY18F (X)	FY19F (X)	FY17 (%)	FY18F (%)	FY19F (%)	
China Fintech																		
Yirendai	YRD US	17.7	BUY	24.0	1,149	2.3	1.9	1.4	5.1	8.4	5.8	1.3	1.3	1.0	53.7%	25.2%	28.6%	-5.6%
Lexin Fintech	LX US	9.9	BUY	21.0	1,665	2.2	3.5	2.0	15.2	8.2	4.5	1.9	1.5	1.1	28.0%	55.6%	56.2%	83.1%
Qudian	QD US	5.4	NR		1,822	1.3	1.0	0.8	2.1	4.8	3.7	2.5	1.3	0.8	n.a.	20.9%	21.6%	-23.3%
PPDai	PPDF US	6.1	NR		1,771	13.1	2.4	1.8	30.0	7.1	6.4	2.9	3.0	2.6	n.a.	39.0%	31.0%	116.0%
Hexindai	HX US	7.6	NR		402	13.7	2.6	n.a.	37.8	5.2	3.8	17.6	3.7	2.0	n.a.	80.1%	39.2%	216.2%
China Rapid Finance	XRF US	2.2	NR		165	5.8	8.6	4.5	n.a.	n.a.	9.0	1.9	1.7	1.0	-107.5%	-99.0%	62.0%	n.a.
ZhongAn Online P&C Insurance	6060 HK	32.1	BUY	55.0	6,044	3.3	3.5	3.6	n.a.	n.a.	n.a.	7.0	4.7	2.9	-8.3%	-6.8%	-3.2%	n.a.
Jianpu	JT US	4.3	NR		810	3.1	4.5	4.2	n.a.	n.a.	46.1	3.6	2.7	1.4	-31.9%	-9.1%	6.6%	n.a.
Huifu Payment	1806 HK	4.3	NR		649	8.0	2.1	1.8	38.6	18.3	11.9	2.4	1.3	0.9	22.3%	13.7%	14.6%	80.3%
Average						5.9	3.3	2.5	21.5	8.7	11.4	4.6	2.4	1.5	-7.3%	13.3%	28.5%	77.8%
Internet																		
Alibaba	BABA US	164.7	BUY	222.0	429,992	10.0	7.8	6.5	64.5	45.1	39.1	18.6	11.8	7.5	17.5%	19.7%	18.2%	28.5%
Tencent	700 HK	330.0	BUY	428.0	393,659	10.7	8.2	6.3	38.0	30.5	22.8	1.4	1.1	0.9	33.2%	30.2%	30.9%	29.1%
Baidu	BIDU US	220.0	NR		80,742	3.5	3.7	3.1	28.7	21.5	18.8	1.0	0.8	0.6	20.3%	17.3%	15.7%	23.4%
JD.com	JD US	27.1	BUY	43.0	38,626	5.1	5.3	5.3	n.a.	n.a.	311.6	0.7	0.6	0.4	-0.4%	-5.0%	1.7%	n.a.
Ctrip.com	CTRP US	38.0	NR		21,525	1.6	1.7	1.6	64.7	29.5	24.7	0.8	0.7	0.6	6.2%	5.4%	6.7%	61.7%
Royal Flush	300033 CH	34.3	NR		2,704	6.4	5.3	4.6	25.4	25.8	21.2	1.9	1.9	1.6	22.4%	19.5%	20.2%	9.6%
Hundsun Tech	600570 CH	51.9	NR		4,825	10.1	9.0	7.7	68.3	55.1	42.5	1.8	1.4	1.1	18.8%	17.4%	20.1%	26.9%
Average						6.8	5.9	5.0	48.3	34.6	68.7	3.8	2.6	1.8	16.9%	14.9%	16.2%	29.9%
US P2P/online lender																		
Lending Club	LC US	3.4	NR		1,528	1.6	1.3	1.3	n.a.	33.5	17.1	1.3	2.2	1.9	-20.6%	3.9%	8.6%	n.a.
Elevate	ELVT US	8.7	NR		368	3.3	2.9	2.0	n.a.	12.6	8.0	0.5	0.5	0.4	0.9%	26.8%	31.0%	n.a.
Average						2.5	2.1	1.6	n.a.	23.0	12.5	0.9	1.3	1.1	-9.9%	15.4%	19.8%	n.a.
Payment/consumer finance																		
Mastercard	MA US	218.0	NR		229,903	43.1	34.3	22.9	59.4	34.0	29.0	18.4	15.4	13.6	84.9%	109.9%	102.1%	43.0%
Visa	V US	147.8	NR		303,592	10.8	10.1	9.4	46.4	32.3	27.8	16.5	14.7	13.2	35.4%	31.6%	33.5%	29.3%
Capital One	COF US	98.0	NR		47,488	1.0	0.9	0.8	27.8	8.7	8.8	1.6	1.7	1.6	6.8%	11.5%	10.3%	78.2%
American Exp	AXP US	109.6	NR		95,672	4.5	4.5	3.9	36.8	15.0	13.6	2.7	2.4	2.2	15.7%	31.1%	29.9%	64.2%
Discovery Fin.	DFS US	77.8	NR		27,190	2.6	2.4	2.1	14.3	10.0	9.0	2.4	2.4	2.4	21.5%	25.1%	25.2%	26.0%
Sybchrony Fin.	SYF US	32.6	NR		24,887	1.7	1.6	1.5	13.4	9.4	7.5	1.5	1.9	1.8	15.8%	17.9%	21.4%	33.4%
Average						10.6	9.0	6.8	33.0	18.2	16.0	7.2	6.4	5.8	30.0%	37.8%	37.1%	45.7%

Note: BBG consensus used for non-rated(NR) stocks. Closing price as of 20 Sep 2018

Industry Focus

China Fintech Sector

LexinFintech Holdings Ltd (LX US Equity, US\$10.05, BUY, Target Price 12-mth US\$ 21.00)

Forecast & Valuation

FY Dec (RMB m)	2017A	2018F	2019F	2020F
Turnover	5,582	7,244	9,868	12,434
EBITDA	499	1,380	2,984	4,035
Pre-tax Profit	475	1,342	2,893	3,868
Net Profit	240	1,310	2,355	3,149
Net Pft (Pre Ex) (core profit)	240	1,310	2,355	3,149
Net Profit Gth (Pre-ex) (%)	N/A	445.1	79.8	33.7
EPS (RMB)	4.23	7.89	14.18	18.96
EPS (US\$)	0.62	1.15	2.07	2.77
Core EPS (US\$)	0.62	1.15	2.07	2.77
Core EPS (RMB)	4.23	7.89	14.18	18.96
EPS Gth (%)	N/A	86.6	79.6	33.7
Core EPS Gth (%)	N/A	86.6	79.6	33.7
Diluted EPS (US\$)	0.50	1.06	1.90	2.54
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	4.37	2.65	4.72	7.49
PE (X)	16.3	8.7	4.9	3.6
Core PE (X)	16.3	8.7	4.9	3.6
P/Cash Flow (X)	2.4	8.5	4.7	3.5
P/Free CF (X)	2.4	9.3	5.2	3.8
EV/EBITDA (X)	6.4	7.5	3.0	1.7
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	2.3	3.8	2.1	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	28.0	55.6	56.2	45.4
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (RMB)		7.43	11.86	16.87
Other Broker Recs:		B: 6	S: 0	H: 1

Income Statement (RMB m)

FY Dec	2017A	2018F	2019F	2020F
Turnover	5,582	7,244	9,868	12,434
Cost of Goods Sold	(4,262)	(4,707)	(5,323)	(6,433)
Gross Profit	1,320	2,537	4,545	6,001
Other Opg (Exp)/Inc	(844)	(1,186)	(1,625)	(2,106)
Operating Profit	476	1,351	2,919	3,895
Other Non Opg (Exp)/Inc	74	1	(26)	(26)
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	(76)	(10)	0	0
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	475	1,342	2,893	3,868
Tax	(234)	(32)	(538)	(720)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	240	1,310	2,355	3,149
Net profit before Except.	240	1,310	2,355	3,149
EBITDA	499	1,380	2,984	4,035
Sales Gth (%)	28.7	29.8	36.2	26.0
EBITDA Gth (%)	1,783.2	176.4	116.3	35.2
Opg Profit Gth (%)	4,209.3	184.1	116.1	33.4
Effective Tax Rate (%)	49.4	2.4	18.6	18.6

Cash Flow Statement (RMB m)

FY Dec	2017A	2018F	2019F	2020F
Pre-Tax Profit	475	1,342	2,893	3,868
Dep. & Amort.	19	29	64	140
Tax Paid	(234)	(32)	(538)	(720)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg. Cap.	796	0	0	0
Other Operating CF	602	1	1	1
Net Operating CF	1,662	1,339	2,420	3,290
Capital Exp.(net)	(38)	(107)	(232)	(310)
Other Invt.(net)	(4,952)	(2,610)	(3,753)	(4,783)
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(434)	0	0	0
Net Investing CF	(5,424)	(2,718)	(3,986)	(5,093)
Div Paid	0	0	0	0
Chg in Gross Debt	3,761	5,450	7,323	7,094
Capital Issues	651	0	0	0
Other Financing CF	0	0	0	0
Net Financing CF	4,412	5,450	7,323	7,094
Currency Adjustments	(3)	0	0	0
Chg in Cash	647	4,072	5,758	5,291

Source: Company, DBS HK

General Data

At A Glance

Issued Capital (m shrs)	109
Mkt Cap (US\$m)	1,091
Major Shareholders (%)	
K2 Partners II LP	21.3
Matrix Partners	16.5
Taikang Asset Management Co., Ltd.	9.0
Apoletto Ltd	8.8
Free Float (%)	44.3
3m Avg. Daily Val. (US\$m)	0.7
ICB Industry: Financials / General Financial	

Balance Sheet (RMB m)

FY Dec	2017A	2018F	2019F	2020F
Net Fixed Assets	63	142	310	480
Invt in Assocs & JVs	1,785	2,586	3,311	4,196
Other LT Assets	142	145	147	150
Cash & ST Invt	11,553	17,431	26,215	35,399
Inventory	102	102	102	102
Debtors	130	130	130	130
Other Current Assets	955	955	955	955
Total Assets	14,730	21,490	31,168	41,411
ST Debt	10,694	16,059	23,268	30,252
Other Current Liab	2,167	2,167	2,167	2,167
LT Debt	167	252	366	477
Other LT Liabilities	0	0	0	0
Shareholder's Equity	1,702	3,012	5,367	8,516
Minority Interests	0	0	0	0
Total Cap. & Liab.	14,730	21,490	31,168	41,411
Non-Cash Wkg. Cap	(981)	(981)	(981)	(981)
Net Cash/(Debt)	692	1,120	2,580	4,671

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2017A	2018F	2019F	2020F
Revenues (RMB m)				
Online direct sales	2,535	2,096	2,094	2,321
Services and others	32	178	332	452
Financial services income	3,015	4,969	7,442	9,661
Total	5,582	7,244	9,868	12,434
Key Assumptions				
Amount of loan origination	47,704.0	72,020.7	104,695.	136,346.
Annual active borrowers (m)	4.1	6.1	8.6	11.0
Average loan size per active	11,692.2	11,760.1	12,152.1	12,395.2
Financial service income to	6.3	6.9	7.1	7.1
Funding cost as % of loan	8.0	8.3	7.6	7.5

Yirendai Ltd (YRD US Equity, US\$18.93, BUY, Target Price 12-mth US\$ 24.00)

Forecast & Valuation

FY Dec (RMB m)	2017A	2018F	2019F	2020F
Turnover	5,543	5,898	7,606	8,510
EBITDA	1,662	993	1,500	1,933
Pre-tax Profit	1,753	1,051	1,506	1,851
Net Profit	1,372	846	1,235	1,517
Net Pft (Pre-Ex) (core profit)	1,372	846	1,235	1,517
Net Profit Gth (Pre-ex) (%)	22.9	(38.3)	46.0	22.8
EPS (RMB)	22.78	13.94	20.35	24.99
EPS (US\$)	3.33	2.04	2.97	3.65
Core EPS (US\$)	3.33	2.04	2.97	3.65
Core EPS (RMB)	22.78	13.94	20.35	24.99
EPS Gth (%)	20.6	(38.8)	45.9	22.8
Core EPS Gth (%)	20.6	(38.8)	45.9	22.8
Diluted EPS (US\$)	3.28	2.00	2.92	3.58
DPS (US\$)	0.27	0.00	0.45	0.99
BV Per Share (US\$)	7.20	9.01	11.79	15.01
PE (X)	5.7	9.3	6.4	5.2
Core PE (X)	5.7	9.3	6.4	5.2
P/Cash Flow (X)	8.6	nm	11.8	5.2
P/Free CF (X)	9.3	nm	19.4	6.5
EV/EBITDA (X)	1.4	4.0	2.4	1.4
Net Div Yield (%)	1.4	0.0	2.4	5.2
P/Book Value (X)	2.6	2.1	1.6	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	53.7	25.2	28.6	27.2
Earnings Rev (%):		Nil	Nil	Nil
Consensus EPS (RMB)		15.76	20.41	28.39
Other Broker Recs:		B: 5	S: 1	H: 6

Income Statement (RMB m)

FY Dec	2017A	2018F	2019F	2020F
Turnover	5,543	5,898	7,606	8,510
Cost of Goods Sold	0	0	0	0
Gross Profit	5,543	5,898	7,606	8,510
Other Opg (Exp)/Inc	(3,866)	(4,252)	(4,818)	(5,334)
Operating Profit	1,677	1,646	2,788	3,176
Other Non Opg (Exp)/Inc	(39)	(696)	(1,386)	(1,438)
Associates & JV Inc	0	0	0	0
Net Interest (Exp)/Inc	115	100	104	113
Dividend Income	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0
Pre-tax Profit	1,753	1,051	1,506	1,851
Tax	(381)	(204)	(271)	(333)
Minority Interest	0	0	0	0
Preference Dividend	0	0	0	0
Net Profit	1,372	846	1,235	1,517
Net profit before Except.	1,372	846	1,235	1,517
EBITDA	1,662	993	1,500	1,933
Sales Gth (%)	71.2	6.4	29.0	11.9
EBITDA Gth (%)	54.4	(40.3)	51.1	28.9
Opg Profit Gth (%)	54.6	(1.9)	69.4	13.9
Effective Tax Rate (%)	21.7	19.4	18.0	18.0

Cash Flow Statement (RMB m)

FY Dec	2017A	2018F	2019F	2020F
Pre-Tax Profit	1,753	1,051	1,506	1,851
Dep. & Amort.	24	42	97	195
Tax Paid	(381)	(204)	(271)	(333)
Assoc. & JV Inc/(loss)	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0
Chg in Wkg. Cap.	1,483	(310)	43	(41)
Other Operating CF	(162)	(1,893)	(710)	(168)
Net Operating CF	911	(1,939)	665	1,504
Capital Exp.(net)	(71)	(121)	(260)	(296)
Other Invt.(net)	(204)	96	(83)	(83)
Invt in Assoc. & JV	0	0	0	0
Div from Assoc & JV	0	0	0	0
Other Investing CF	(100)	0	0	0
Net Investing CF	(375)	(25)	(343)	(379)
Div Paid	(605)	(113)	(88)	(185)
Chg in Gross Debt	(294)	0	0	0
Capital Issues	50	0	0	0
Other Financing CF	0	0	0	0
Net Financing CF	(849)	(113)	(88)	(185)
Currency Adjustments	(16)	0	0	0
Chg in Cash	(329)	(2,077)	234	939

Source: Company, DBS HK

General Data

At A Glance

Issued Capital (m shrs)	60
Mkt Cap (US\$m)	1,205
Major Shareholders (%)	
CreditEase	82.4
Free Float (%)	17.6
3m Avg. Daily Val. (US\$m)	1.7
ICB Industry: Financials / General Financial	

Balance Sheet (RMB m)

FY Dec	2017A	2018F	2019F	2020F
Net Fixed Assets	82	161	324	425
Invt in Assocs & JVs	0	0	0	0
Other LT Assets	1,981	2,087	2,204	2,332
Cash & ST Invt	5,434	3,886	4,203	5,226
Inventory	0	0	0	0
Debtors	21	2,207	3,020	3,219
Other Current Assets	0	0	0	0
Total Assets	7,519	8,341	9,751	11,201
ST Debt	0	0	0	0
Other Current Liab	4,390	4,177	4,331	4,414
LT Debt	0	0	0	0
Other LT Liabilities	11	11	11	11
Shareholder's Equity	2,970	3,744	4,901	6,241
Minority Interests	0	0	0	0
Total Cap. & Liab.	7,519	8,341	9,751	11,201
Non-Cash Wkg. Cap	(4,516)	(2,379)	(1,818)	(1,731)
Net Cash/(Debt)	5,434	3,886	4,203	5,226

Segmental Breakdown (RMB m) / Key Assumptions

FY Dec	2017A	2018F	2019F	2020F
Revenues (RMB m)				
Loan facilitation services	5,227	3,723	4,351	4,835
Post-origination services	187	228	344	393
Account management services	0	1,684	2,347	2,503
Others	129	264	564	779
Total	5,543	5,898	7,606	8,510
Key Assumptions				
Amount of loan origination	41,406.1	41,608.0	48,064.2	51,237.9
Annual active borrowers (m)	0.6	0.6	0.7	0.8
Number of investors (m)	0.6	0.6	0.6	0.6
Net revenue to loans	13.4	14.2	15.8	16.6
User acquisition cost to loans	7.0	6.6	7.0	7.3

China Fintech Sector

China Rapid Finance Ltd

Bloomberg: XRF US Equity | Reuters: U:XRF

Refer to important disclosures at the end of this report

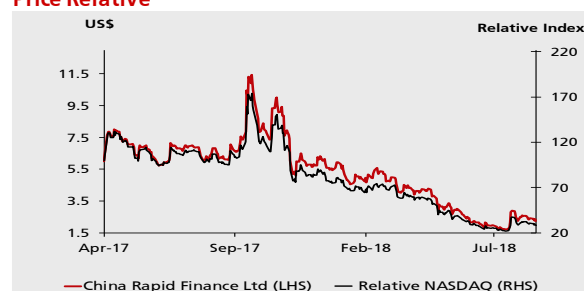
NOT RATED

Last Traded Price (21 Sep 2018):US\$2.46 (NASDAQ : 8,028)

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Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2014A	2015A	2016A	2017A
Turnover	58	56	56	88
EBITDA	0	(27)	(32)	(35)
Pre-tax Profit	0	(30)	(33)	(37)
Net Profit	0	(30)	(33)	(37)
Net Pft (Pre Ex.)	0	(30)	(33)	(37)
EPS (US\$)	(0.11)	(2.05)	(2.46)	(2.48)
EPS Gth (%)	(375.0)	n.a.	n.a.	n.a.
Diluted EPS (US\$)	(0.11)	(2.05)	(2.46)	(2.48)
BV Per Share (US\$)	0.58	1.44	0.85	1.20
PE (X)	(20.4)	(1.1)	(0.9)	(0.9)
P/Cash Flow (X)	n.m.	n.m.	n.m.	n.m.
P/Free CF (X)	n.m.	n.m.	n.m.	n.m.
EV/EBITDA (X)	n.m.	n.m.	n.m.	n.m.
Net Div Yield (%)	n.m.	n.m.	n.m.	n.m.
P/Book Value (X)	3.8	1.6	2.6	1.9
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
ROAE (%)	n.m.	(181.7)	(178.6)	(100.3)

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

A business in transformation

- 17-year experience in credit scoring capability to support its online loan facilitation segment
- Business reorganisation and product adjustment to shorten breakeven timeline
- Fulfilled all regulatory requirements, positive on growth potential once compliance processes are done

From banks' consumer credit advisor to online loan facilitator. China Rapid Finance (XRF), founded by Dr. Zane Wang in 2001, started from analysing consumer credit, developing credit scoring models, issuing credit cards for China banks such as BOC (3988 HK) and CCB (939 HK), to launching its own lending marketplace in 2010 to test consumer credit behavior, and mobile-based consumption loans in 2014 to acquire borrowers at large scale. XRF offers consumption loans (~RMB1K) and lifestyle loans (~RMB80K) which contributed 79%/21% of its loan portfolio in 1H18, vs 87%/13% in 2017.

Restructuring to turn profitable. Through a reorganisation programme to reduce headcount by 15% and close offline data verification centers, and shifting its product focus to lifestyle loans which has a net take up rate of 11% (vs consumption loans' 3%), XRF expects to breakeven during 2H18 based on current take up rates, loan facilitation of over US\$500m, and opex run rate of US\$30-35m/quarter. Funding remains resilient with the number of investors on its platform at 18K, made up of high net worth individuals with high level of stickiness.

Positive on recent regulations. Management expressed that the new compliance guidance issued in Aug18 is positive for the P2P industry and legal platforms are allowed to continue to operate and apply for registration. The link to the CCRC and "Credit China" System capturing delinquent borrowing data would put the pressure on borrowers to repay. XRF's annualized default rate (90-day delinquency) was 4.9% in 2Q18. XRF trades at 1x P/S, much lower than its -2std below the average P/S multiple since IPO. Given the low valuation, management announced a US\$20m share buyback programme to reaffirm its confidence on XRF's growth potential.

At A Glance

Issued Capital (m shrs)	65
Mkt Cap (US\$m)	165
Major Shareholders (%)	
Wells Fargo & Co (%)	7.8
Free Float (%)	92.1
3m Avg. Daily Val. (US\$m)	0.4
ICB Industry: Financials / General Financial	

Income Statement (US\$ m)

FY Dec	2014A	2015A	2016A	2017A
Revenue	58	56	56	88
Cost of Goods Sold	-	-	-	-
Gross Profit	-	-	-	-
Other Opg (Exp)/Inc	(59)	(84)	(89)	(125)
Operating Profit	(1)	(28)	(33)	(37)
Other Non Opg (Exp)/Inc	1	(1)	(0)	0
Associates & JV Inc	-	-	-	-
Net Interest (Exp)/Inc	-	-	-	-
Exceptional Gain/(Loss)	-	-	-	-
Pre-tax Profit	0	(30)	(33)	(37)
Tax	(0)	(0)	(0)	(0)
Minority Interest	-	-	-	-
Preference Dividend	2	3	7	85
Net Profit	(2)	(33)	(40)	(122)
Net Profit before Except.	(2)	(33)	(40)	(122)
EBITDA	(1)	(27)	(31)	(32)
Revenue Gth (%)	n.m	(2.8)	(0.5)	57.0
EBITDA Gth (%)	n.m	n.m	n.m	n.m
Opg Profit Gth (%)	n.m	n.m	n.m	n.m
Effective Tax Rate (%)	(0.0)	(0.0)	(0.0)	(0.0)

Balance Sheet (US\$ m)

FY Dec	2014A	2015A	2016A	2017A
Net Fixed Assets	n.m	4	5	6
Invts in Assocs & JVs	n.m	-	-	-
Other LT Assets	-	-	-	-
Cash & ST Invts	n.m	28	19	95
Inventory	-	-	-	-
Debtors	n.m	17	14	14
Other Current Assets	n.m	19	20	23
Total Assets	42	68	58	138
ST Debt	n.m	-	-	-
Creditors	n.m	-	-	-
Other Current Liab	n.m	45	44	78
LT Debt	n.m	-	-	-
Other LT Liabilities	n.m	-	-	-
Shareholder's Equity	n.m	23	14	59
Minority Interests	-	-	-	-
Total Cap. & Liab.	42	68	58	138
Non-Cash Wkg. Cap	n.m	n.m	n.m	n.m
Net Cash/(Debt)	n.m	28	19	95

Cash Flow Statement (US\$ m)

FY Dec	2014A	2015A	2016A	2017A
Pre-Tax Profit	0	(30)	(33)	(37)
Dep. & Amort.	1	1	1	2
Tax Paid	(0)	(0)	(0)	(1)
Assoc. & JV Inc/(loss)	-	-	-	-
(Pft)/ Loss on disposal of FAs	-	-	-	-
Non-Cash Wkg. Cap.	(9)	5	4	26
Other Operating CF	0	7	1	3
Net Operating CF	(8)	(17)	(27)	(6)
Capital Exp. (net)	(2)	(3)	(3)	(2)
Other Invts. (net)	-	-	-	-
Invts. in Assoc. & JV	-	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	-	-	-	-
Net Investing CF	(2)	(3)	(3)	(2)
Div Paid	-	-	-	-
Chg in Gross Debt	2	(2)	-	-
Capital Issues	-	11	19	84
Other Financing CF	(0)	30	5	1
Net Financing CF	2	39	24	85
Chg in Cash	(8)	19	(6)	76

Rates & Ratio

FY Dec	2014A	2015A	2016A	2017A
Gross Margin (%)	n.m	n.m	n.m	n.m
Opg Profit Margin (%)	0.8	(53.5)	(59.7)	(41.7)
Net Profit Margin (%)	0.2	(53.5)	(59.7)	(41.8)
ROAE (%)	n.m.	(181.7)	(178.6)	(100.3)
ROA (%)	n.m	(54.6)	(52.7)	(37.4)
ROCE (%)	7161.1	(77.8)	(42.0)	(161.1)
Div Payout Ratio (%)	n.m.	n.m.	n.m.	n.m.
Interest Cover (x)	n.m.	n.m.	n.m.	n.m.
Asset Turnover (x)	n.m.	1.0	0.9	0.9
Debtors Turn (days)	0.8	0.5	0.3	1.8
Creditors Turn (days)	n.m.	1.0	0.9	0.9
Inventory Turn (days)	n.m.	1.0	0.9	0.9
Current Ratio (x)	n.m.	n.m.	n.m.	n.m.
Quick Ratio (x)	n.m.	n.m.	n.m.	n.m.
Net Debt/Equity (X)	Cash	Cash	Cash	Cash
Capex to Debt (%)	n.m.	n.m.	n.m.	n.m.
N. Cash/(Debt)PS (US\$)	0.36	1.54	1.15	1.93
Opg CFPS (US\$)	(0.48)	(1.04)	(1.63)	(0.12)
Free CFPS (US\$)	(0.16)	(0.23)	(0.29)	(0.05)

Source: Company, DBS HK

China Fintech Sector

Jianpu Technology

Bloomberg: JT US Equity | Reuters: JT

Refer to important disclosures at the end of this report

NOT RATED

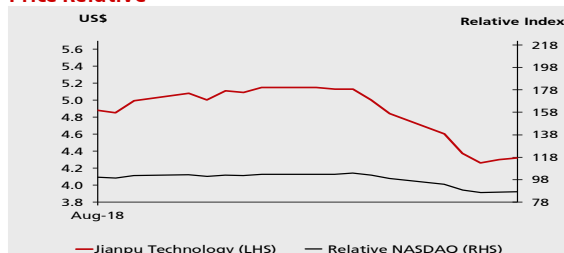
Last Traded Price (20 Sep 2018):US\$4.49 (NASDAQ : 8,028)

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Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2015A	2016A	2017A
Turnover	168	356	1,446
EBITDA	(179)	(173)	(60)
Pre-tax Profit	(196)	(182)	(174)
Net Profit	(196)	(182)	(202)
Net Pft (Pre Ex.)	(196)	(182)	(202)
EPS (RMB)	(1.42)	(1.32)	(1.43)
EPS (US\$)	(0.23)	(0.20)	(0.21)
EPS Gth (%)	n.a.	n.a.	n.a.
Diluted EPS (RMB\$)	(1.42)	(1.32)	(1.43)
DPS (US\$)			
BV Per Share (US\$)	(0.02)	0.06	1.61
PE (X)	n.a.	n.a.	n.a.
P/Cash Flow (X)	n.a.	n.a.	n.m.
P/Free CF (X)	n.a.	n.a.	n.a.
EV/EBITDA (X)	n.a.	n.a.	n.a.
Net Div Yield (%)	-	-	-
P/Book Value (X)	n.a.	n.a.	2.7
Net Debt/Equity (X)			Cash
ROAE (%)	n.a.	(933.0)	(25.4)

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

Partner to consumer lenders

- An independent platform to facilitate credit card and loan referrals
- Strong revenue growth and operating leverage likely to help breakeven in 4Q18
- US\$20m share buyback, or 2.4% of ADS to reinforce confidence on long-term growth

An open platform for all. Established in 2011, Jianpu Technology (JT) is an independent open platform (called Rong 360) that recommends financial products, mainly credit cards and consumer loans, in China. The key driver for the increase in the number of loan applications (90m, 316% CAGR in FY15-17) and credit card volume (2.5m, 124% CAGR) on JT's platform is monthly active users (MAU) which have grown rapidly by 108% CAGR to over 100m in FY15-17. Revenue generated is mainly from its charges of RMB13-14 per loan application and RMB100 per credit card approval.

Breakeven likely in 4Q18 or early 2019. Compared to 51Credit (2051 HK, NR) which is similar to JT in providing loan/credit card referrals but also operates its own P2P platform, JT has a much larger user base at 100m, vs 51Credit's 6.9m, and the quality of JT's referrals is better, as 51Credit's users mostly have multiple credit cards and high tendency of overleveraging. But JT is still loss-making due to high sales and marketing (S&M) expenses (85%/82% of FY17/1H18 revenue) incurred to expand its user base. Strong revenue growth (306%/110% y-o-y in FY17/1H18) and operating leverage should help the company to breakeven in 4Q18 or early 2019.

Increasing bargaining power to raise prices. JT expects fees for credit cards and loans to continue on an uptrend helped by increasing bargaining power. Fees for credit cards are charged upon annual renewals whereas loan fees depend on volume, loan size and duration. As a result of recent P2P regulatory headwinds, JT's share price is trading at 46% below its IPO price of US\$8 in Nov 2017, and 1.4x FY19 P/S, below its fintech peers' average of 1.5x.

At A Glance

Issued Capital (m shrs)	28
Mkt Cap (US\$m)	133
Major Shareholders (%)	
Lightspeed China Partners I GP LLC	18.2
Temasek Holdings Pte. Ltd.	8.1
Wells Capital Management Inc.	5.4
Free Float (%)	68.3
3m Avg. Daily Vol. (US\$m)	0.1
ICB Industry: Financials / General Financial	

Income Statement (RMB m)

FY Dec	2015A	2016A	2017A
Revenue	-	168	356
Cost of Goods Sold	-	(34)	(67)
Gross Profit	-	134	290
Other Opg (Exp)/Inc	-	(330)	(472)
Operating Profit	-	(196)	(182)
Other Non Opg (Exp)/Inc	-	0	0
Associates & JV Inc	-	-	-
Net Interest (Exp)/Inc	-	-	-
Exceptional Gain/(Loss)	-	-	-
Pre-tax Profit	-	(196)	(182)
Tax	-	-	(28)
Minority Interest	-	-	-
Preference Dividend	-	-	-
Net Profit	-	(196)	(182)
Net Profit before Except.	-	(196)	(202)
EBITDA	-	(193)	(178)
Revenue Gth (%)	-	-	111.7
EBITDA Gth (%)	-	-	(3.6)
Opg Profit Gth (%)	-	-	(7.1)
Effective Tax Rate (%)	-	-	(16.3)

Balance Sheet (RMB m)

FY Dec	2015A	2016A	2017A
Net Fixed Assets	-	6	5
Invt in Assocs & JVs	-	-	-
Other LT Assets	-	2	1
Cash & ST Invt	-	-	1,544
Inventory	-	-	-
Debtors	-	42	58
Other Current Assets	-	20	72
Total Assets	-	70	134
ST Debt	-	-	-
Creditors	-	48	32
Other Current Liab	-	36	49
LT Debt	-	-	-
Other LT Liabilities	-	-	-
Shareholder's Equity	-	(14)	53
Minority Interests	-	-	-
Total Cap. & Liab.	-	70	134
Non-Cash Wkg. Cap	-	(22)	47
Net Cash/(Debt)	-	-	-

Cash Flow Statement (RMB m)

FY Dec	2014A	2015A	2016A	2017A
Pre-Tax Profit	-	(196)	(182)	(202)
Dep. & Amort.	-	4	5	6
Tax Paid	-	-	-	-
Assoc. & JV Inc/(loss)	-	-	-	-
(Pft)/ Loss on disposal of FAs	-	-	-	-
Non-Cash Wkg. Cap.	-	20	(67)	60
Other Operating CF	-	14	5	108
Net Operating CF	-	(159)	(239)	(28)
Capital Exp. (net)	-	(5)	(4)	(19)
Other Invt. (net)	-	-	0	-
Invt. in Assoc. & JV	-	-	-	-
Div from Assoc. & JV	-	-	-	-
Other Investing CF	-	-	-	-
Net Investing CF	-	(5)	(4)	(19)
Div Paid	-	-	-	-
Chg in Gross Debt	-	-	-	-
Capital Issues	-	-	-	1,368
Other Financing CF	-	164	243	243
Net Financing CF	-	164	243	1,612
Chg in Cash	-	-	-	1,544

Rates & Ratio

FY Dec	2015A	2016A	2017A
Gross Margin (%)	79.6	81.3	90.1
Opg Profit Margin (%)	(116.5)	(51.2)	(12.0)
Net Profit Margin (%)	(116.5)	(51.1)	(14.0)
ROAE (%)	n.a.	(933.0)	(25.4)
ROA (%)	n.a.	(178.0)	(19.7)
ROCE (%)	n.a.	(-346.2)	(-13.1)
Div Payout Ratio (%)	n.a.	n.a.	n.a.
Interest Cover (x)	n.a.	n.a.	n.a.
Asset Turnover (x)	2.4	3.5	1.4
Debtors Turn (days)	90.4	50.8	30.2
Creditors Turn (days)	504.0	218.9	266.2
Inventory Turn (days)	n.a.	n.a.	n.a.
Current Ratio (x)	0.7	1.6	5.0
Quick Ratio (x)	0.7	1.6	5.0
Net Debt/Equity (X)	-	-	Cash
Capex to Debt (%)	n.m.	n.m.	n.m.
N. Cash/(Debt)PS (RMB)	n.a.	n.a.	4.47
Opg CFPS (RMB)	(1.15)	(1.73)	(0.20)
Free CFPS (RMB)	(1.18)	(1.76)	(0.33)

Source: Company, DBS HK

DBS HK recommendations are based on 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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 24 Sep 2018 12:07:19 (HKT)

Dissemination Date: 24 Sep 2018 16:04:11 (HKT)

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