



JUPAI Holdings Ltd.
Solid H1-2018 Performance Sustained By
Bargaining Power In Real Estate Projects

NYSE: JP

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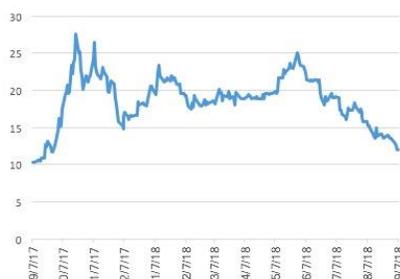


Jupai Holdings Limited – H1 2018 Earnings Review

Exchange: NYSE Ticker: JP

Company Summary	
Date:	9/7/18
Current Price:	\$12.08
52-week Range:	\$9.87 - \$29.00
Market Cap:	\$402.9 M
3-month Avg Volume:	171.8k
P/E Ratio:	6.76x

Source: Yahoo Finance



Brief Review¹

Jupai reported H1-2018 net revenue of RMB 876.8 million (USD \$132.5 million), a YoY increase of 8.9%. Net income attributable to ordinary shareholders was RMB 203.7 million (USD \$30.8 million), a YoY increase of 0.3%, and diluted earnings per ADS was RMB 5.79 (USD \$0.88), a YoY decrease of 3.8%.² However, non-GAAP net income attributable to ordinary shareholders, adjusted by GAAP required items including share-based compensation, amortization and impairment loss, was RMB 241.6 million, a YoY increase of 6.6% and non-GAAP diluted earnings per ADS was RMB 6.87 (USD \$1.04), a YoY increase of 2.2%.

H1-2018 Result Highlights

Net revenues steadily increased driven by double digit growth in one-time commissions and recurring management fees. Due to the tougher regulations control in China's wealth management industry, property developers have been facing higher cost of capital, which in turn enable the company's one-time commission rate to increase to 2.9% in Q2-2018 up from 2.5% in Q1-2018 and approximate 2% in FY2017.³ For the first half of 2018, benefited from business development of real estate private equity products, one-time commissions of RMB 558.7 million remained the largest source of revenue, returning a YoY growth of 20.2%. Recurring management fees of RMB 244.6 million, the second largest source of revenue, significantly increased a YoY growth of 51.4%, driven by higher one-time commission rate and better product development strategy. Meanwhile one-time commission and recurring management fees accounted for 63.7% and 27.9% of the total revenue, up from 57.7% and 20.1% in the same period in 2017 respectively. Overall total net revenues increased 8.9% YoY to RMB 876.8 million (USD \$132.5 million).

Profitability ratios remain sustainable on the back of cost efficiency. The prevalent sentiment in China's wealth management industry is challenged by strict new regulations and the government's accelerated deleveraging at the macro-economic level. Consequently, ensuring sustained profitability demonstrates the company's leading position in the industry and cost efficiency advantage. In H1-2018, the company's operating margin maintained at approximate 36% as compared to the same period in 2017, supported by remaining operating expense ratio at approximate 64% as the result of effective cost control.

¹ FY2018 Q2, 6K

² ADS indicates the American depository share

³ FY2018 Q2 Earnings Call

Enhanced bargaining power in real estate projects attributed to stringent regulations. The tightened regulations in the financial sector are continuing to restrict the funding source available to property developers from commercial banks through loans and bonds, which forced them to get financing from other source such as private equity fund. Such change is reflective in H1-2018 performance figures, where private equity products accounted for 68% of total products distributed, a significant increase from H1-2017 of 15%. Meanwhile, the share of fixed income products decreased from 81% in H1-2017 to 25%. The increasing one-time commission rate is also reflecting that Jupai is expected to have more bargaining power for its real estate-related private equity products pursuant to the benefit of recent policy changes.

Reiterate unchanged positive management guidance supported by fee-generating assets under management (AUM). Given private equity products and actively managed funds' longer investment horizon, which in turn should generate higher recurring management fees and performance fees, the company is dedicated to launch more such products to expand the company's AUM over the past few years.⁴ As of June 30, 2018, total assets under management were a QoQ 4% increase and a YoY growth of 18.1% in AUM of RMB 56.7 billion (US\$ 8.6 billion). The company's growing fee-generating AUM is expected to be a key revenue growth momentum for H2-2018, driven by recurring management fees and performance fees.

One of the company's funds invested in Focus Media is expected to be ended by the end of 2018. The company is entitled to generate approximate RMB 80 million performance fees to boost the company's earnings toward its financial guideline.⁵

Jupai's client-centric business model is expected to stand out in new wealth management business competition environment. The purpose of stringent regulation implementation is to build a stable and healthy development of asset management business industry. For many wealth management companies may be forced out of the business due to lack of asset management products supply or failure to comply the tough regulations. In addition, without implicit guarantees on asset management products, investors become more conservative and are eager to have a leading wealth management company like Jupai to help them with asset allocations. Adapting to new wealth management business competition, Jupai is constantly driving to improve its service quality to capture business expansion opportunity by updating IT system, establishing the investment consulting department, enhancing risk management system and offering higher-quality product portfolio.⁶ In short term, these upgrades could increase operating costs but the benefits of these inputs are expected to be reflected on customer satisfaction in the long term.

⁴FY2018 Q2 Earnings Call

⁵FY2018 Q2 Earnings Call

⁶FY2018 Q1 Earnings Call

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