Noah Holdings Limited [Noah]
Q4 & FY2023 Results Conference Call
March 26, 2024, 8:00 PM ET.

Company Representatives
Jingbo Wang, Co-Founder, Chairlady
Zander Yin, Co-founder, Director and CEO
Grant Pan, Chief Financial Officer
Melo Xi, Director of Investor Relations

Analysts
Helen Li, UBS
Peter Zhang, JPMorgan

Presentation

Operator: Good day, and welcome to the Noah Holdings Fourth Quarter and Full Year 2023 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Melo Xi, Director of Investor Relations. Please go ahead.

Melo Xi: Thank you, operator. Good morning and welcome to Noah's 2023 fourth quarter earnings call. Joining me on the call today are Ms. Wang Jingbo, our Co-Founder and Chairlady, Mr. Zander Yin, our Co-Founder, Director and CEO, and Mr. Grant Pan, our CFO. Ms. Wang will begin with an overview of our recent business highlights, followed by Mr. Pan who will discuss our financial and operational results. They will all be available to take your questions in the Q&A session that follows.

Before we begin, please note the discussion today will contain forward-looking statements that are subject to risk and uncertainties, and may cause actual results to differ materially from those in our forward-looking statements. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the SEC and the Hong Kong Stock Exchange.

Noah does not undertake any obligation to update any forward-looking statements, except as required under the applicable law. In addition, today's call will include discussions of certain non-GAAP financial measures. A reconciliation of the non-GAAP measures to the most directly comparable GAAP measures can be found in our earnings release.

Lastly, this call should not be interpreted as a solicitation to sell or purchase an interest in any Noah or Noah-affiliated products. Please also be aware that the link to a live webcast with presentation materials is available on our investor relations website.

With that, I would like to pass the call over to Ms. Wang. Please go ahead.

Jingbo Wang: Thank you. (Speaking foreign language).

Melo Xi: Thank you, Chairlady.

(Translated). I'd like to begin today's call by sharing some recent thoughts on the industry and macroeconomic landscape, before I review our performance for the fourth quarter and full year and dive into our strategy going forward.

Over the past year, the Chinese wealth management industry faced considerable challenges. Fundamental shifts are taking place across the sector that require a different strategy and approach to asset allocation for Mandarin-speaking high-net-worth individuals. Noah's relentless focus on client needs spearheaded our transition from a product-focused model to a solutions-driven approach over the past year, ensured our ability to increase the resilience of client portfolios in a challenging market environment.

Our proactive decisions to prematurely exit the domestic real estate in 2016 and non-standardized single-counterparty private credit products in 2019 earned us significant trust from clients. Our semi-annual CIO house view and CCI model continue to reflect our strategic foresight over the past 3 years, which resonated strongly with clients. We adopted a three-pronged strategic approach to navigate this challenging market environment over the past year.

Firstly, we are laser-focused on ensuring our resilience and adaptability through economic downturns. Secondly, we are actively accumulating strength to emerge as a leader in the forthcoming recovery. And finally, prioritizing the development of our core capabilities to position us for future growth when opportunities arrive.

Noah is a company built on both pragmatism and ambition, allowing us to strike a careful balance between fortifying our position and seizing new opportunities. By enhancing operational efficiency, retaining top talent, strategically cutting costs while simultaneously investing in new international markets, channels, technologies and the developments of a global product and service matrix, we are ideally positioned to help clients traverse this market.

Over the past year, we strengthened our full suite of wealth management products and services for Mandarin-speaking clients globally. One key focus has been expanding our ability to offer clients alternative investments on a global basis. We are also seeing global fund managers increasingly focusing on underserved private wealth channels to fuel primary market fundraising. As a leading private wealth manager recognized for its expertise in alternative investments and its extensive network of Mandarin-speaking professional investors, this trend presents enormous opportunities for Noah.

Going forward, we'll be amplifying these strategic global investments. This includes expanding our service network, bolstering investment research capabilities, and significantly enhancing product selection and technological infrastructure. These investments will solidify our foundation as a leader, enabling us to meet growing demand among clients for globally diversified wealth and asset management services.

Looking at our financials for the year, Noah generated total net revenues of RMB 3.3 billion, an increase of 6% year-on-year. Our domestic business contributed RMB 1.9 billion, an increase of 18.1% year-on-year, and accounting for 56.8% of the total net revenues. Within revenue from our domestic business, revenue generated by legacy distributed products was RMB 1.4 billion, accounting for 73.9% of the domestic revenue.

Our overseas business generated RMB 1.4 billion, a significant increase of 73% year-on-year, driving overseas revenue contribution from 26.5% of the total net revenues last year to 43.2% this year.

Of revenue generated from new business and products in 2023, our overseas and domestic businesses accounted for 68.1% and 31.9%, respectively.

Breaking the total revenues down by segment, our wealth management business generated RMB 2.5 billion in 2023, an increase of 13.1% from last year. Within wealth management, domestic business contributed RMB 1.4 billion, a decrease of 11.7% from last year, which was primarily composed of RMB 0.9 billion in revenue generated by legacy distributed products, accounting for 67.7% of the domestic wealth management revenue. Our overseas business contributed RMB 1.1 billion, a 71.3% increase year-on-year.

Our asset management business generated RMB 769 million in revenue during the year, a decrease of 8.4% from last year. Within asset management, our domestic business generated RMB 469 million, a decrease of 30.3% from last year, which was primarily composed of RMB 467 million in revenue generated by legacy distributed products, accounting for 99.4% of the domestic asset management revenue.

Our overseas business contributed RMB 299 million, an increase of 80% year-on-year, driven primarily by growth in overseas AUA and AUM.

On the comprehensive services side, revenue from domestic insurance products increased by 1.6% in 2023, of which 88.9% were generated by new businesses. Revenue from overseas insurance, trust, and other comprehensive services surged 301.5% from last year. In tandem, the number of active overseas clients for comprehensive services also grew by 376.3% year-on-year.

Over the past year, we continued to make upgrades to our technology stack aimed at improving the client experience globally. We are working with leading insurers to streamline our underwriting processes across markets globally. We were the first broker in Hong Kong to launch a fully online underwriting process and allow clients the option to make insurance premium payments through our Hong Kong nominee account, which was a significant enhancement for client experience.

Operating profit for the year came in at RMB 1.1 billion with an operating profit margin of 33.3%.

Looking at our domestic wealth management business, we continued to carry on the strategy to focus on first-tier and core cities in China. Through our ongoing organizational restructuring, we decreased the number of offices we have from 77 to 44 by the end of the year, and further relocated resources to 18 core cities as of now. As of the end of 2023, the number of domestic relationship managers decreased by 7.6% year-over-year and 12.6% sequentially to 1,163.

On the domestic wealth management front, our primary focus has been on strengthening the service capabilities of our relationship managers, and enhancing the user experience of technological upgrades to our stack, allowing us to continuously generate new leads from ongoing client services.

The Smile Treasury platform for corporate and institutional clients we launched in 2022 now serves nearly 6,000 clients, a 28.9% increase from last year. Over the past year, the number of active clients it serves increased by 73.7% year-over-year, with average client AUA exceeding RMB 600,000.

Turning overseas, our wealth management business continues to expand its presence, as more relationship managers are brought onboard in Hong Kong and Singapore. As of the end of 2023, we had 89 relationships managers on-boarded, an 15.6% increase sequentially. We are committed to further expanding our international RM team, targeting a headcount of 200 by the end of 2024.

As of the end of 2023, we had over 14,900 overseas clients, reflecting a 14.2% increase from last year. The number of clients who purchased our cash management products reached 3,093, a sequential increase of 19.1%, while the number of discretionary investment clients reached 803, an increase of 23% sequentially.

We continue to expand the products offered through our overseas wealth management App, providing an expanded array of solutions for clients, businesses, and agencies. The number of overseas active high-net-worth clients reached 4,629 in 2023, a significant 38% increase from last year. Total transaction value during the same period reached USD3.3 billion, up 83.4% year-on-year. The number of active clients for our U.S. dollar mutual fund products reached 3,130, up 72% year-on-year with transaction value of USD1.2 billion, up 110.1% from last year.

On the to-B side, we have successfully on-boarded more than 230 overseas corporate and institutional clients, which resulted in transaction value of overseas mutual funds reaching approximately USD200 million.

On the to-Agency side, our overseas online wealth management business began trial operations in late 2023, aiming to empower EAM and family office clients with a SaaS platform integrated with our full suite of products. As of today, we have signed nine agency clients, with a long-term target of serving 300 EAMs and family offices overseas markets.

In terms of asset management, Gopher's total AUM was RMB 154.6 billion in 2023, a decrease of 1.6% year-on-year. RMB AUM decreased by 4.8% from last year to RMB 118.6 billion. This was primarily driven by exits from RMB private equity assets and decline in the net asset value of some RMB public market products.

Internationally, we continue to enhance our global investment product matrix. Overseas AUM reached USD5.1 billion in 2023, an increase of 7.6% from last year, driving from an increase in its contribution to total AUM from 20.7% to 23.3%. Overseas AUA, which include distributed products, reached USD8.4 billion, an increase of 10.2% year-on-year.

Beyond traditional PE and VC products, we have gradually expanded our alternatives offerings to include infrastructure, GP stake, PE secondary, and private credit products to provide a more comprehensive product matrix. We also recently launched the Series 4 of our actively managed U.S. real estate fund, focusing on development opportunities in the suburban rental apartments in the U.S. Sunbelt area. This fund is well-positioned as an upstream player within the institutional real estate value chain. As of the end of 2023, AUM for overseas private equity and other primary market funds reached USD4 billion, an increase of 4.7% year-on-year.

Turning to public markets, we intensified the screening, coverage, and inclusion of top hedge fund managers globally. We have launched 10 of the global top 50 hedge fund products, with 10 more in the due diligence process. While enhancing the diversity of fund managers and product strategies, we are simultaneously expanding to include structured products with principal protection mechanisms. In 2023, the transaction value of overseas public markets and structured products reached USD180 million, an increase of 95.9% from last year.

Lastly, we announced a change to our leadership structure last year by separating the roles of chairperson and CEO. Mr. Zander Yin was appointed CEO, while I will retain my position as Chairwoman of the Board. This decision will enhance corporate governance, organizational efficiency, promote collective decision-making, and facilitate Noah's succession plan, and generate opportunities for Noah's deep bench of management talent.

As a co-founder, Zander has been a part of Noah's journey since the beginning. He played a pivotal role in building Gopher Asset Management, and possesses a deep understanding of Noah's operations and our client-centric company culture. I will firmly support Zander in his new role, while continue to steer Noah's overall strategy and be responsible for board management and corporate governance.

Please also kindly note that our CEO Zander and CFO Grant will be reporting quarterly results, starting from next quarter, I will still take part in the Q&A sessions.

I would now like to turn the call over to Grant to go over our financial results in more detail, before opening the call to Q&A where Zander and myself will also participate. Thank you, everyone.

Grant Pan: Thank you, Melo, and thanks, Chairlady, and I'm sure most investors already met with Ms. Zander, and will welcome him to join our future earning releases and our NDR calls with our investors.

2023 was a challenging year for China's wealth management industry. China's post-pandemic economic recovery proved to be a little slower than initially anticipated, as housing and local government debt problems remained widespread and persistent, dragging domestic capital markets and growth. The performance of China's domestic market share, A-share market and Hong Kong stock market also took same heavy adjustments, impacting the issuance of new investment products domestically.

The new issuance of mutual fund products, for example, in the domestic market fell 22.7% throughout the year.

On the contrast, in 2023, the Dow Jones Industry Average Index rose by 13.7%, with the S&P 500 Index and MSCI World Equity Index up over 20%.

On the alternatives side, global fund managers are increasingly focusing on the underserved private wealth channels to fuel primary market fundraising. According to McKinsey, as of June 30, 2023, the total AUM in private markets reached USD13.1 trillion, growing nearly 20% per annum since 2018. The sharp divergences in economic and capital market conditions between onshore and offshore markets have created considerable challenges for high-net-worth clients, while demands for global asset security and diversification, insurance products and other defensive-driven strategies continue to grow.

As a leading wealth management company recognized for its expertise in alternative investments and extensive network of Chinese professional investors, these trends directly align with our strategic transition from a product-based to a solution-based offering, and our ongoing investment in overseas products and services. In this context, we delivered solid financial results and our business has proven again to be resilient and adaptive in the face of challenging market environment.

Net revenues for the year continued to grow, along with a healthy operating margin of 33.3%.

Combined with our asset-light model generating strong operating cash flow and ample cash on our balance sheet, we are extremely confident in the resilience of our business and our ability to thrive even in complex economic conditions.

With that, let's get into the details of our Quarter 4 and entire fiscal year 2023 financial performance. Quarterly net revenues came in just shy of RMB 800 million, a 6.6% increase sequentially. Our net revenues for the year was RMB 3.3 billion, up 6.3% year-over-year.

In terms of breakdown of net revenues for the year, one-time commissions were RMB 1.1 billion, up 60% year-over-year, primarily due to strong distribution of insurance products. Recurring service fees, a key stabilizer in revenue mix, were RMB 1.8 billion, slightly down 4.8% year-over-year, due to a decrease in our onshore AUM resulting from changes in NAV and exits in RMB investment.

Performance-based income was RMB 137 million, down 55.5% year-over-year, mainly due to the underperforming domestic capital markets and limited exit opportunities. And other service fees were RMB 258 million, up 23.4% year-over-year, primarily due to more value-added services provided to our clients.

Breaking down net revenues by region, overseas net revenues of the year was RMB 1.4 billion, increased by 73% year-over-year, accounting for 43.5% of total net revenues.

We've been following our clients' demands and made significant progress in expanding our international presence in 2023, managed to recruit over 100 overseas relationship managers as of today.

At the same time, we'll continue to enrich our product offerings and enhance cooperation with top global primary and secondary market funds, manager of the insurance companies, driving an increase in overseas transaction value and AUA by 83.4% and 10.2%, respectively. In 2023, we officially launched our office in LA, and are actively exploring opportunities of rolling out services and products in many other places in the world, such as Dubai and Japan, probably Southeast Asia nations.

With respect to transaction values, we distributed RMB 16.5 billion of products during the quarter, down 8.1% year-on-year and 25.9% quarter-over-quarter. By region, transaction value for RMB products in the quarter was RMB 10.7 billion, down 17.4% year-over-year and 30.5% quarter-over-quarter, while transaction value for U.S. dollar products increased by 12% year-on-year and down 13.4% quarter-over-quarter to USD 828 million.

Total transaction values for the year reached RMB 74.1 billion, up 5.4% year-over-year. Breaking this down by region, the transaction value for RMB products was RMB 50.3 billion, down 13.2% year-over-year, while the transaction value for U.S. dollar products increased 83.4% to USD 3.3 billion, driven by U.S. dollar cash management and structured products. As of the end of year, our overseas AUM grew 7.6% year-over-year to USD 5.1 billion, accounting for 23.3% of the total AUM.

Operating costs and expenses increased by 9.2% during the year, primarily due to the low base effect created by Covid lockdowns in 2022, which curtailed both marketing activity and business traveling, as well as an increase in international travel this year in support of global expansion. Combined with our strategic cost controls, operating costs kept reasonable and in line with revenue growth.

Baked into our operating costs for the year were a number of one-time expenses that will generate cost savings over the long term. With the continued urbanization of China, Chinese high-net-worth investors are increasingly migrating to first-tier cities. We have been consolidating teams and resources in smaller cities to nearby hubs, mostly capital and first-tier cities, and international regions accordingly. We expect to benefit from consolidations of these networks to save approximately RMB 10 million annualized going forward.

We also looked closely at improving human capital efficiency. The total headcount decreased by 10.4% overall, in 2023, most of which were stemmed from mid-and-back office personnel, which decreased by 17.2%. This will save RMB 64 million annualized going forward. At the same time, we are allocating resources and firmly implementing overseas talent developments. Total overseas headcount increased by 16.1% to 426 in 2023.

Operating profit during this quarter was RMB 221 million, effectively flat when compared to the same period last year and down 11.3% sequentially. Operating profit margin during the quarter improved on a year-over-year basis to 27.6%, but decreased compared with the previous quarter, as we typically have more marketing and client activities during the fourth quarter.

Operating profit for the year was RMB 1.1 billion, a slight increase of 0.9% year-over-year, while operating profit margin for the year remained at a healthy level of 33.3%.

Total other income for the year was RMB 111 million, increased by 82.2% year-over-year, mainly due to optimization of our capital management and currency mixes. This was partially offset by noncash investment losses from certain balance sheet investments due to mark-to-market adjustments.

Non-GAAP net income during the quarter was RMB 234 million, up 56.7% year-over-year, and RMB 1 billion during the year, a slight increase of 1% from last year.

Turning to the results of each segment during the year, net revenues from wealth management were RMB 2.5 billion and net revenues from asset management were RMB 766 million, accounting for 75.6% and 23.3% of total net revenues, respectively.

As of the end of the quarter, we had 7,369 Diamond Card clients, down 2.8% year-over-year and 1.2% quarter-over-quarter. However, the number of Black Card clients increased by 8.8% year-over-year and 1.7% quarter-over-quarter, reaching a total of 2,289. The total number of Diamond and Black Card clients was 9,658, slightly down 0.3% year-over-year, primarily due to a sluggish equity market and downbeat investment sentiment.

That being said, we are still confident to capture more market share by continued enhancements in our global product service offerings, and achieving a 1% market share in the high-net-worth wealth management market as a goal.

Overseas registered clients as the end of the year increased by 14.2% year-over-year to 14,929 and overseas active clients of the year increased by 38% year-over-year to 4,629 as we continue to build up overseas presence.

Turning to our balance sheet, we have maintained a healthy liquidity position, with our current ratio at 3.8x, and our debt to asset ratio at 17.8% with zero interest-bearing debt. We have RMB 5.2 billion in cash and cash equivalents, providing ample resources to support our global expansion plans and make improvements in shareholder return, which the Board has always considered the priority.

I'm very glad to announce that based on our strong and clean balance sheet and strong liquidity position, and after considering the necessary investments associated with global expansion plan, the Board has approved an annual dividend of RMB 509 million for 2023, which is equivalent to 50% of the year's non-GAAP net income attributable to Noah shareholders, in accordance with the capital management and shareholder return policy announced last quarter.

In addition, the Board has also approved a non-recurring special dividend for the year of RMB 509 million in total for 2023. Thus, the amount of total shareholder returns for 2023 in the form of cash dividend will be RMB 1 billion, equivalent to 100% of 2023 non-GAAP net income, subject to final approval of AGM in June 2024.

At the current market value, our recurring payout plan provides a very attractive dividend yield of over 10%, and the total payout plan, with additional special dividend, will yield over 20% for shareholders.

In summary, we believe that the share price of Noah is significantly undervalued to its intrinsic value. We remain extremely confident in our long-term growth prospects. We are also committed to improving our return on equity and to creating more value for our shareholders through enhanced shareholder returns.

Once again, we sincerely appreciate our shareholders' support for your ongoing trust. Thank you for listening, and I will now open the floor for questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Helen Li with UBS.

Helen Li: (Speaking foreign language). So let me translate my question. So this is Helen from UBS, two questions if I may. First, the number of covered cities declined to 44 and RM declined 11% in the fourth quarter. Is that because of the close of offices, or are you laying off RMs? And what's your future plan for the onshore business in terms of RMs?

And my second question, at last year's Open Day, we talked about structural product and hedge fund product, which could be driving for one-time combinations going forward. What's the penetration rate of this product? And what's your product strategy this year? And what's your business outlook for 2024?

Grant Pan: Thank you, Helen. I think I will take the first question. (Speaking foreign language). So to your first question, Helen, I guess it's probably a result of both. One is the consolidation of networks. Obviously, some of the relationship managers choose to not leave the smaller city and work in the hub city. So there's some natural loss, but it actually doesn't account for too much of the decrease.

And two is really, obviously, optimization. We're increasingly improving the threshold into some assessment efficiency of these RMs. So naturally, for the RMs, they have to reach a higher threshold, if you will, to be continually -- to remain in the team. But we're actually actively adjusting the structure, obviously, with the heavier investments on the global side, oversea RMs. We're probably also emphasizing on the overall comprehensive capabilities of the skillset of the RMs. (Speaking foreign language).

Zander Yin: (Speaking foreign language).

Melo Xi: Grant, so I will take the translation for Zander. So in terms of the optimization of our domestic network, we always adhere to the strategy of following the footstep of our clients. And over the past few years, we have noticed the trend of high-net-worth individuals and clients to relocate from lower-tier cities where they basically accumulated their first-bucketto core cities and first-tier cities and our strategy follows them.

On the other hand, given the current challenging macroeconomic condition, we need to concentrate and re-allocate our core strength and these workers to improve operational efficiency. Therefore, in the fourth quarter last year, we basically laid off some of the underperforming RMs and professionals. So this is quite different from our expansion strategy in the past.

So now, we are more focusing on allocating our strength and resources to the individuals with high performance. And in fact, the top performers over the past year, basically, their KPI and the AUA value per head has increased more than 30% over the past year.

Jingbo Wang: (Speaking foreign language).

Melo Xi: So in conclusion, in the past few quarters, we have rather focused on consolidating our domestic network. So you can probably see that the speed of the decrease of the domestic RM headcount is actually slower than the decrease of the number of cities we consolidated, which means we are currently still under further valuation for our workforce.

So in terms of your second question, on the penetration rate for hedge fund products, structured products and cash management products, the penetration rate for hedge fund and structured products is still very low. However, in the first quarter this year in 2024, the penetration rate for structured products, especially with the principal protection mechanism, has been increasing.

And we are also seeing the potential of clients whose wallets with us is currently in cash management-related products. As the interest rate is starting to, or is expected to, trend down in the future, we see opportunities to convert these wallet shares into other alternative investment products, including hedge fund and structured products.

Helen Li: Very clear, thank you. (Speaking foreign language).

Operator: (Operator Instructions). Peter Zhang with JPMorgan.

Peter Zhang: (Speaking foreign language). My question is about the dividend. I wish to chat with management, what's the rationale behind the special dividend payment for this year? And we still have a very strong cash balance on our balance sheet. Looking ahead, do we have any share buybacks or other long-term shareholder returns then?

Grant Pan: Thank you, Peter. I'll take the first question and Norah and Zander will jump in as needed. So for the special dividend, after input discussions with our investors, and we have basically passed on the message to the Board. We'll continue to anticipate strong cash flows from our future operations, and by -- after carefully evaluating the capital needs for global expansion, and really not any definite target for heavy capital utilization, we believe that it's the right time to return to our shareholders with heavier ratio in terms of special dividend.

We don't believe stock repurchase actually adds too much value, at this point, we obviously will not exclude that option going forward. But for this year, we will prioritize on the cash dividend payout in the form of special dividend.

Peter Zhang: Thank you very much. Yes, very clear, thank you very much.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Grant Pan for any closing remarks.

Grant Pan: Okay. Thank you very much for our shareholders and analysts for continued trust and support. And this will conclude today's earning release, and if you have further questions, we have arranged one-on-one sessions. I will be very happy to share more insights with you. Thank you.

Zander Yin: Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.