Noah Holdings Limited [Noah]
Q3 2024 Results Conference Call
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Company Representatives
Jingbo Wang, Co-Founder, Chairlady
Zander Yin, Co-founder, Director and CEO
Grant Pan, Chief Financial Officer
Melo Xi, Senior Director and Head of Global Capital Markets Group

Analysts
Chiyao Huang, Morgan Stanley
Peter Zhang, JPMorgan

Presentation

Operator: Good day, and welcome to the Noah Holdings Third Quarter 2024 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, Senior Director and Head of Global Capital Markets Group. Please go ahead.

Melo Xi: Thank you, operator. Good morning and welcome to Noah's third quarter 2024 earnings conference call. Joining me today 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. Mr. Yin 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, I'd like to gently remind everyone that we'll be hosting a Corporate Open Day in Hong Kong on the afternoon of December 6. The event will host analysts and investors and feature today's executive management team, as well as others who will offer insights into the wealth management needs of our target client base, discuss global investment allocation strategies, and showcase the progress we have made with our competitive global investment product offerings and comprehensive service matrix.

Advance registration is required to attend in person. A link to register was included in the press release announcing the event we issued last week. The event can also be viewed live via webcast or replay on our IR website. Please feel free to reach out to our IR team should you have any questions about how to register or watch the event online.

In addition, please note that the discussion today will contain forward-looking statements that are subject to risks and uncertainties, that 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 applicable law.

With that, I would like to pass the call over to Mr. Zander Yin, please go ahead.

Zander Yin: Thank you, Melo. (Speaking foreign language). Thank you, and good morning or evening to everyone. Similar to last quarter, we will share our financial results by domestic and international segments, followed by an overview of our growth strategies for both.

As noted on last quarter's call, we are actively pursuing the strategy of "refining the domestic market while expanding internationally". Domestically, we are strategically deploying sales personnel to specific independent and licensed business units. We are leveraging Noah Upright Fund Distribution, whose core strategy is to focus on developing an online-first business model complimented by offline services, to allocate RMB assets globally. In the insurance brokerage segment, Glory Insurance Brokerage is focusing on building a commission-only agency team.

In the asset management segment, Gopher Asset Management is focused on managing exits in the primary market and cross-border products in the secondary market. At the group level, we are establishing a dedicated business development team to engage more effectively with high-net-worth clients through investor education and cross-industry partnerships. The evolving regulatory environment requires us to adjust each business unit to adopt a distinct service model to ensure compliance and improve operational efficiency.

Globally, we launched new brands to serve overseas Mandarin-speaking clients this year, including our wealth management arm, Ark Private Wealth, asset management arm, Olive Asset Management, and global insurance, trust, and comprehensive services arm, Glory Family Heritage. At the same time, we are accelerating our expansion into global markets by gradually rolling out wealth management services, targeting key markets such as Southeast Asia, Japan, Canada, the United States, and Europe.

We target three client segments: high-net-worth families and companies that recently relocated overseas, or are preparing to do so; secondly, mandarin-speaking individuals or businesses who have immigrated abroad for less than 5 years; thirdly, Mandarin-speaking settled immigrants who have resided overseas for a prolonged period of time. Our strategy focuses squarely on addressing the diverse needs of these client segments by offering a tailored range of products and services.

Turning to our financials for the quarter, total revenues were RMB 689 million, a decrease of 8.8% year-on-year and an increase of 11.0% sequentially, primarily due to a 32.6% year-on-year decrease in revenues from mainland China, which was partially offset by a 28.9% increase in revenues from overseas. Revenues from overseas increased 35.3% sequentially as well.

To mention last quarter, I will use each business unit as the primary framework for updating investors on their performance and operations. Following my remarks, our CFO Mr. Grant Pan will provide an analysis of our overall financial performance.

Internationally, we continue to enhance our product matrix to better serve our clients and improve our online service capabilities. During the quarter, we launched several products tailored to the three key client segments I mentioned earlier. During the third quarter, net revenues from overseas were RMB 377 million, an increase of 28.9% year-on-year and 35.3% sequentially, accounting for over 50% of the group revenue for the first time, primarily due to an increase in revenues from offshore investment products while U.S. dollar AUA and AUM increased by 5.7% and 16.0% year-on-year, respectively, as well as increased distribution of overseas insurance products.

Hong Kong, Singapore, and the United States have been designated as the primary overseas booking centers for Ark Wealth. These booking centers not only service existing clients, but also facilitate engagement with new clients in Southeast Asia, Japan, Canada, and other regions. As of the third quarter, we had 146 overseas relationship managers, including the direct sales team from Olive Asset Management, an increase of 89.6% year-on-year and 29.2% sequentially. Overseas AUA, including third party distributed products, reached USD 8.7 billion, a 5.7% year-on-year increase.

As of the third quarter, Ark Wealth total registered clients exceeded 17,200, an increase of 20.9% year-on-year. Specifically, the number of accounts opened in Hong Kong reached 17,038, an increase of 19.8% year-on-year. In Singapore, we had 735 accounts, a substantial increase of 168.2% year-on-year. In the U.S., we have served over 1,000 clients cumulatively. Additionally, the number of discretionary investment clients reached 1,012, an increase of 55.0% year-on-year.

iARK is our online wealth management platform that offers money market mutual funds and securities trading. During the quarter, it generated revenue of RMB 8 million, an increase of 190.7% year-on-year. Following the launch of the iARK app in Singapore, our service capabilities for Singapore local clients improved significantly. We expect Singapore to reach the breakeven point by the end of this year.

During the third quarter, the number of overseas active clients reached 3,139, an increase of 37.4% year-on-year. Total transaction value during the same period was USD 1.1 billion, an increase of 15.8% year-on-year. The number of active clients in USD mutual funds reached 2,691, an increase of 53.1% year-on-year, with a transaction value of mutual fund reaching USD 494 million, an increase of 83.7% year-on-year.

Overseas transaction value for corporate and institutional clients reached USD 88 million in the third quarter, an increase of 57.1% year-on-year, while the AUA reached USD 213 million, an increase of 70.4% year-on-year.

On the international asset management front, we launched our new asset management arm, Olive Asset Management, to provide clients with actively and externally managed overseas alternative investment products as well as mutual fund products.

During the third quarter, transaction value of USD private equity products reached USD 152 million, a significant increase of 46.7% year-on-year. Transaction value of USD private secondary products, including hedge funds, structured products and term deposits, reached USD 395 million. Excluding term deposit, the transaction value of hedge fund and structure products reached USD 93 million, the highest since 2023, up 21.5% year-on-year and 17.1% sequentially, as we continued to enhance our public market product matrix.

As of the end of the third quarter, AUM for overseas products reached USD 5.6 billion, a 16.0% year-on-year increase and accounting for 26.3% of the total AUM, compared to 22.8% during the same period last year. AUM for overseas private equity and other primary market funds reached USD 4.3 billion, a 19.0% year-on-year increase.

To provide comprehensive services for high-net-worth families overseas, we launched the Glory Family Heritage brand, which offers identity planning, global insurance, trust services, and other integrated solutions. This segment generated total revenue of RMB 145 million in the third quarter, an increase of 42.4% year-on-year and 44.1% sequentially.

Glory is actively exploring new business models as well. We are expanding our team of licensed commission-only agents and establishing new client-referral models for external agency channels, where we have already made significant progress. We recruited over 30 commission-only agents during the quarter, with more than one-third already contributing revenue.

Regarding external agency channels, we have achieved a breakthrough from zero to 1. We are targeting three types of institutions with a range of value-added services and professional capabilities for their clients, including cross-industry institutions, professional service agencies, and licensed financial institutions. To date, we have signed contracts with 19 external institutions, which have already begun to contribute to revenue. We have also gained valuable insights from this model and will focus on its further development moving forward.

Domestically, we remained committed to our refining operations approach. We are ensuring compliance to effectively reduce costs and are focused on selecting products that can safeguard client interests in the long term, emphasizing investor education, and foster deep engagement with our clients.

In the third quarter, net revenues from mainland China contributed RMB 312 million, a decrease of 32.6% year-on-year and 8.8% sequentially. This was primarily due to limited new business activity and decreases in recurring service fees from RMB investment products and revenue from domestic insurance products.

Noah Upright, which offers mutual funds and private secondary products, generated total revenues of RMB 108 million in the third quarter, a decrease of 21.7% year-on-year.

During the third quarter, the transaction value for RMB mutual funds reached RMB 5.2 billion, a decrease of 60.0% year-on-year but an increase of 4.0% sequentially. Transaction value for RMB private secondary products amounted to RMB 786 million, a decrease of 55% year-on-year and 35.7% sequentially. These changes were primarily due to adjustments in our product strategy.

Gopher Asset Management achieved total revenue of RMB 181 million in the third quarter, a decline of 17.3% year-on-year.

In the primary market, Gopher's investment team continues to focus on exits for existing investments, having successfully achieved over RMB 6 billion in primary market exits so far in 2024. Strategically, we are enhancing daily supervision and management of our portfolio funds and projects, exploring diverse exit strategies, and improving dividend payouts from the underlying assets to improve DPI. Additionally, the investment team is proactively expanding the buyer's market by pursuing exit opportunities through asset acquisition or secondary fund transactions.

In the secondary market, private secondary products managed by Gopher primarily focus on deploying RMB to invest in onshore cross-border ETFs, with the goal of capturing beta returns from the global markets. This product series generated transaction value of nearly RMB 100 million during the third quarter.

Total revenue from Glory Insurance Brokerage onshore during the quarter was RMB 9 million, a decline of 89.9% year-on-year. The decrease was primarily due to adjustments made to the sales team and product selection strategy. We are also establishing a commission-only agents model. In term of product selection, the focus is on medical and retirement-related services. With the new sales team structure and new product mix, we expect this business to take a bit longer to ramp up.

In summary, through our strategy of “refining the domestic market while expanding internationally”, we are making significant progress. As we establish a global client service model, we are seeing significant demand for our overseas services among overseas Mandarin-speaking clients. Our new vision is to become the preferred wealth management platform for global Mandarin-speaking investors.

I would now like to turn the call over to Grant to go over financial results in more detail. Thank you.

Grant Pan: Thank you, Zander, and greetings to everyone joining us today. Globally, the three major U.S. stock indices reached historic highs in 2024, with the Nasdaq Composite up 25% this year and 80% since the end of 2022. Our clients have benefited from our forward-looking global CIO house view, which began recommending clients allocate funds to QD products especially linked to U.S. equity in 2022. We believe the overseas wealth management needs of our clients remain inadequately addressed.

Before we continue to actively expand our international businesses by increasing the number of local branches, strengthening our local relationship manager teams, and enhancing our online services capabilities to improve the quality of our offerings.

Now, let's get into the details of our financials. I'm very pleased to report that our third quarter results have regained a positive trend, with net revenue reaching RMB 684 million. While this is still weaker, 8.8%, comparing to the same period last year, it does reflect a 11.0% increase sequentially comparing to last quarter despite significant market pressures. This increase is mainly driven by the growth of our overseas businesses.

Overseas net revenue in the third quarter reached RMB 377 million, a year-over-year increase of 28.9%, accounting for 55.1% of total revenue. Specifically, revenue from USD-denominated investment products reached RMB 191 million, up 42.5% year-over-year and 40.1% growth sequentially. Revenue from overseas insurance products was RMB 145 million, up 42.4% year-over-year and 44.1% growth sequentially.

And revenue from USD liquidity products increased significantly by 190.7% year-over-year, an impressive growth from online wealth management growth on iARK platform. These figures underscore the strong performance of our overseas business this quarter.

By revenue type, one-time commissions increased significantly by 28.5% quarter-over-quarter, primarily due to the recovery in overseas insurance. Recurring service fees declined 13.8% year-over-year, and were relatively flat sequentially, mainly due to the aging of RMB-denominated AUA and AUM. In contrast, revenue from overseas investment products continues to grow as we expand our international presence. Performance-based income was notably stronger this quarter, reaching RMB 61 million, primarily driven by the successful exits of certain USD PE products.

Our total transaction value in the third quarter was RMB 14.3 billion. As of the end of this quarter, USD-denominated transaction values increased 15.8% year-over-year to USD 1.1 billion. As a proportion of total transactions, USD-denominated products are growing and now account for 54.6% of total transaction value compared to 31.3% during the same period last year.

As expectations of the Federal Reserve rate cuts strengthen, we have observed a continuous trend of clients shifting from cash management products to investment opportunities. In the third quarter, the transaction value for USD alternative investment products, which includes private equity, private securities, and private credit products, increased significantly by 36.0% year-over-year and a 6.1% sequential growth to USD 245 million.

As a proportion of total transaction value and total USD transaction value, alternative investment products increased to 12.1% and 22.1%, respectively. We are pleased to see these products increasingly contribute to our ongoing management fee revenue.

At the end of the third quarter, our USD AUM grew significantly by 16.0% year-over-year and 4.6% sequentially to USD 5.6 billion, with the USD-denominated AUA growing by 5.7% year-over-year and 1.9% sequentially to USD 8.7 billion. This reflects our ability to capture a larger share of clients' USD wallets for investment products.

Moving on to the income statement, our ongoing cost control initiatives continue to yield positive results. Total operating costs and expenses for the quarter were RMB 443 million, a decrease of 11.6% year-over-year and 8.1% sequentially.

Compensation and benefits decreased by 22.7% year-over-year as we further improve human capital efficiency by reducing overhead costs, with the proportion of middle and back-office staff now below 50% of total headcount. Selling expenses and general & administrative expenses declined significantly by 26.1% year-over-year. Government subsidies notably are expected to decrease this year, with only RMB 37 million received year to date.

Despite a reduction in government subsidies, operating profit for the quarter remained consistent when compared to the same period last year, and saw a notable sequential recovery of nearly 80% to RMB 241 million. Our operating margin has also come back to 35%.

We also note that net income this quarter was impacted by certain factors, including the decrease in interest income on the RMB 1 billion dividend payout from substantial payout earlier this year, the decline in domestic interest rates, and the reallocation of some cash to short-term investments. Additionally, the U.S. dollar's depreciation against RMB during the quarter led to a foreign exchange loss of RMB 44 million. But obviously, the future appreciation of the U.S. dollar, if any, is expected to mitigate this impact.

Tax expenses were notably higher during the quarter, primarily attributable to the withholding taxes on dividends payouts. That being said, our non-GAAP net income still increased significantly on a sequential basis to RMB 151 million. As of the end of the third quarter, our year-to-date net income has reached RMB 418 million.

In terms of clients, as Zander mentioned, we maintained a stable total of 9,420 Diamond and Black Card clients at the end of this quarter. Meanwhile, our overseas client base continues to show robust growth, with more than 17,000 overseas registered clients, up 20.9% year-over-year and 3% sequentially. The total number of overseas Diamond and Black card clients rose to 1,556. Overseas active clients also reached 3,139, a 37.4% increase year-over-year.

Turning to our balance sheet, while our cash and cash equivalents by the strict classification decreased to RMB 3.4 billion this quarter due to the RMB 1 billion dividend payout earlier this year, we maintain a robust liquidity position. Taking into consideration our short-term investments and long-term investments with some reclassification, our total cash reserves totaled around RMB 4.7 billion, essentially unchanged from the previous quarter if we exclude the impact from the RMB 1 billion dividend payout.

Our current ratio has improved to 4.4x, and the debt-to-asset ratio has dropped to 14.9% with no interest-bearing debt.

At the end of August, we also announced a USD 50 million share repurchase program, and are pleased to see the subsequent rebound in our stock price. However, despite this rebound, we still believe our stock remains undervalued, and does not fully reflect the growth of our prospects, robust balance sheet positions, and cash reserves. It also fails to capture our special bond with Mandarin-speaking high-net-worth investors around the world.

We plan to carry out the repurchase program at appropriate times once the trade window opens, reaffirming our commitment to delivering value to our shareholders.

In conclusion, 2024 is a year of significant transformation for Noah in every aspect, as we actively deploy a more customer-centric sales model and deepen our international expansion effort. Transformation is embedded in our corporate DNA and has been a key driver of our growth. We recognize this journey will be very challenging, and are confident that these strategic initiatives are not just about weathering the storm; they are about unlocking new horizons for long-term development and growth.

Once again, thank you all for your trust and your support. We will now open the floor for questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Chiyao Huang with Morgan Stanley.

Chiyao Huang: I got a question. Obviously we have been observing the excitement on the equity market since September. A lot of the momentum, we think, is very much retail-driven. So I was wondering to what extent, as a wealth management provider, Noah can participate in this rising sentiment of the equity market? And how does that impact our revenue and profitability? So beginning with that how will Noah advising the clients in this environment.

Zander Yin: (Speaking foreign language).

(Translated). Thank you Chiyao, for the question. So with regards to the financial performances, obviously, the major policies was rolled out at the end of September, so our third quarter natural results were largely not impacted by the recent policies changes and the rebounding of the stock market.

In terms of the client sentiment, we're seeing more activities among our onshore mainland China clients definitely. In the past, we have seen that an investment sentiment and confident among our clients towards Asia markets was very low, or very weak. But at least right now, we're seeing a rebound in trading activities and interest.

But from our CIO houseview perspective, we still strongly believe that to advise clienneed use their RMB assets to invest in globally beta returns, which is still one of the most important asset allocation advice that we give to clients because we think that the policies still need time to be implemented, and the fundamentals, or the economic fundamentals, still need time to show whether will be improved. Since we are a wealth management company, we do not follow a trading-driven strategy. Rather, we are more taking a long-term asset allocation view.

Therefore, we haven't really changed our CIO houseview but that means that we still have enhanced our product shelf on the RMB side, although we're still advocating to quantities in QDII and QDLP products, to invest globally. We have definitely introduced some of the RMB exposure products as well.

Chiyao Huang: (Speaking foreign language). Thank you.

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

Peter Zhang: (Speaking foreign language). I have two questions. So my first question is we have been doing this refining domestic operation and expanding international strategy. And I think during the past, your reporting quarter of domestic revenue has been under pressure while overseas revenue has been improving. And the total revenue has improved sequentially in the third quarter. I'm just wondering can we say that we have passed this period where Noah's value has been under pressure? And going forward, our revenue trend can be stably improving, and domestic and internationally, what do you think will be the largest or most important driver for our revenue outlook in the next, say, one year or so?

And my second question is a follow-up question to the earlier question. I'm just wondering have we observed any change in customer behavior or activity? Like what products are clients mostly purchasing in fourth quarter after the stimulus in China? And with this improving client sentiment can we say that our revenue trend in fourth quarter can be improved sequentially from third quarter.

Grant Pan: Thank you, Peter. And I think it's probably a little bit yes and no to your questions. Maybe it's a little bit too early to say that revenue growth trend has come into turning point. As we know, the market has been changing drastically, especially after the election. But I guess it's safe to say the structure of our growth probably has come into shape that more resources and more expense efforts are going into the international expansion.

So in terms of accumulation of U.S. dollar-denominated investment opportunities, probably it's going to be more dominant in the future periods, but especially with the recurring management fees and carrying the structure, both sides probably will not stay the same or identical to the last quarter. But obviously, we're hoping that we'll be able to accelerate the transformation, but at the same time, also remain very patient, so that wouldn't be from the overall strategy.

Okay. So I will let Zander take the question about the Asia market.

Zander Yin: (Speaking foreign language).

(Translated). Thank you, Peter, for the question. So I think Grant pretty much answered the first part of the question. And regarding your second point of question, as a follow-on to the first question, so I think our overall view is that it's still quite difficult to see the effectiveness of the recent policies, and also the continuation of these policies, and to really make a decision on whether this is short-term or mid-term or long-term driven.

But we are seeing a trend among our clients, our investors, that they have been increasingly willing to communicate with us more. So I think at this critical point, this time window, we have the privilege of more opportunities to engage with clients on one-to-one meetings, providing more asset allocation advice and insight, and also, to I guess drive more client transaction, and also help them to reshape their portfolio allocation.

So we still continue to provide long-term asset allocation advice, and basically in three different perspectives. So first is to provide a safety net, which includes the different protection and inheritance tools for our clients globally. And secondly is what we call a cash management or cash flow portfolio that provides different liquidity and long-term inflation protection investment tools. And thirdly is to pursue growth strategy through private equity, venture capital and also AI-related investment opportunities.

So also, in this process, we need our different business units to provide each of their features, products and services through a client-centric mindset. But as we mentioned before, this is pretty much a new sales model, and we're still undergoing the transition period. It has been a few quarters, but we're still trying to work out the best way, or to improve efficiency under this new model. And we believe that as we gradually figure out the new sales model, it would be reflected in our future financial performance.

Peter Zhang: Oh, thank you. Thank you, management, for the explanation, really helpful.

Operator: This concludes our question-and-answer session. I'd like to turn the conference back over for any closing remarks.

Melo Xi: Thank you all again for participating in our third quarter earnings call. And just another gentle reminder that we will be hosting our Annual Corporate Open Day in Hong Kong on December 6. So please don't hesitate to register, or contact our Investor Relations team for further details. Thank you again.

Grant Pan: For those of you in the States, happy Thanksgiving too.

Zander Yin: Happy Thanksgiving.

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