Noah Holdings Limited [Noah]
Q1 2024 Results Conference Call
May 29, 2024, 8:00 PM ET.

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

Analysts
Peter Zhang, JPMorgan

Presentation

Operator: Good day, and welcome to the Noah Holdings First 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, Director of IR. Please go ahead.

Melo Xi: Thank you, operator. Good morning and welcome to Noah's 2024 first quarter earnings 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, please note that the discussion today will contain forward-looking statements that are subject to risk 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. 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 Mr. Yin. Please go ahead.

Zander Yin: (Speaking foreign language).

(Translated). Good morning, Noah investors and analysts. I am Zander Yin, and this is my first time sharing and discussing the company's performance as the CEO of Noah Holdings. Thank you all for joining us today. I'd like to start today's call by sharing our views on the macroeconomic environment, our performance for the first quarter of 2024, and the strategy we are deploying going forward.

Domestic capital markets continued to experience extreme fluctuations during the first quarter. The real estate market remained sluggish, while the primary market faced hurdles due to the periodic policies restrictions, resulting in a slow exit process. It's clear that high-net-worth individuals are becoming increasingly cautious with their investments. Adding to the challenge, some non-compliant wealth management companies with capital pooling have collapsed, severely affecting domestic clients and leading to a stricter regulatory environment.

I would like to reiterate that since our inception, Noah has never engaged in capital pooling, has no maturity mismatches, and does not offer high-leverage financing options to clients. As of today, Noah does not have any non-standardized private credit products and RMB residential real estate funds.

Overseas, persistent inflation over the past 3 months has cooled expectations for a Federal Reserve rate cut, indicating that a higher-for-longer rate environment is likely to remain in place. As a result, investors will continue to allocate capital towards cash management and deposits for a longer period of time.

Mandarin-speaking clients are also strongly demanding for global asset allocations. With this trend continues, we are expanding our international RM team and actively increasing our influence and wallet share among overseas Mandarin-speaking clients.

Turning to our financials for the quarter, total revenues were RMB 654 million, a decrease of 19.2% year-on-year, primarily due to the proactive restructuring of our business. Our overseas business strategy has achieved solid results, contributing 77.1% of the revenue generated from new businesses and products in the first quarter, while domestic business contributed 22.9%.

By region breakdown, our domestic business contributed RMB 348 million, accounting for 53.1% of the total revenues. Within the domestic business, revenues from legacy distributed products accounted for 89.6%. Our overseas business generated RMB 307 million, a decrease of 4.5% year-on-year, mainly due to the carried interest earned from private equity exits in the same period last year. If we back out the impact from carried interest, overseas net revenue actually increased by 22.4% year-on-year.

Breaking it down by segment, our wealth management business generated RMB 464 million. Within wealth management, our domestic business contributed RMB 235 million, while the overseas business contributed RMB 229 million.

Our asset management business generated RMB 181 million. Within asset management, our domestic business contributed RMB 103 million, entirely composed of revenue from legacy distributed products. Our overseas business contributed RMB 78 million.

As we expand our portfolio of overseas private equity products, the number of active clients in USD private equity and structured products reached 583 in the first quarter, a year-on-year increase of 97%. The value of capital raised for USD private equity products, which generate long-term recurring service fee revenue, reached $165 million. This grew USD AUM to $5.2 billion, a year-on-year increase of 6.1%.

In the comprehensive services segment, the domestic insurance brokerage business generated RMB 19 million in revenue. Revenue from overseas insurance, trust, and other comprehensive services was RMB 150 million, a year-on-year increase of 86.8%.

The number of active clients in overseas comprehensive business increased by 51.9% year-on-year.

Operating profit for the first quarter was RMB 121 million, with an operating profit margin of 18.7%.

In the wealth management segment, our domestic business objective is to ensure full compliance and steady operations. We have proactively reduced the number of branches in domestic cities from nearly 80 to 18, with plans to further narrow it down to around 10 core cities. We are firmly committed to reducing fixed costs and optimizing mid- and back-office personnel costs.

Internationally, from Hong Kong and Singapore to the United States, our strategy is to increase the number of relationship managers and enhance our influence and wallet share among high-net-worth Mandarin-speaking clients. As of the end of the first quarter, Hong Kong and Singapore had 91 relationship managers onboarded, an increase of 225% year-on-year and 2.2% sequentially.

Currently, due to the small size of our overseas RM team, each overseas RM serves too many clients, and there is room for improvement in the quality and responsiveness of our client service. Internationally, our primary focus is on expanding the team of overseas RMs. This year, our goal is to grow the team to 200.

As we continue to invest in our international infrastructure, as of the end of the quarter, we had over 15,700 overseas registered clients, an increase of 17.1% year-on-year. The number of clients who purchased our cash management products reached 4,108, an increase of 89.4% year-on-year, while the number of discretionary investment clients reached 873, an increase of 167% sequentially.

In the asset management segment, domestically, our primary challenge is to strengthen private market exits in collaboration with GPs and portfolio companies. In public markets, we focus on QDII and QDLP products to help clients generate beta returns in the global capital markets with RMB allocations.

Internationally, since 2022, we have significantly expanded the diversity and quality of our overseas products as part of our Top-tier GP partners and segmented flagship products strategy. During the quarter, the transaction value for USD cash management products increased 49.4% year-on-year and 33.6% sequentially to US$840 million.

At the same time, we have built a complete product matrix and launched high-yield USD products to capitalize on the high-interest rate environment. These include private credit and infrastructure products, as well as actively managed VC Fund of Funds and the fourth series of our U.S. real estate fund. Transaction value of our USD private equity products increased significantly, reaching $165 million in the first quarter, an increase of 21.3% year-on-year and 81.3% sequentially.

As of the end of the quarter, AUM for overseas products reached US$5.2 billion, an increase of 6.1% year-on-year, accounting for 24.4% of the group AUM, compared with 21.2% during the same period last year.

AUM for overseas private equity and other primary market funds reached $3.9 billion, an increase of 5.9% year-on-year. Overseas AUA, which includes third-party distributed products, reached $8.3 billion, a year-on-year increase of 9.2%.

In recent years, top global GPs have increasingly turned to private wealth channels for capital raising, and have been introducing more individual client-friendly products with liquidity features. Our strong brand image among high-net-worth clients and RMs' expertise in alternative asset classes, make us the ideal partner for these GPs. Our goal is to increase USD AUA from the current $8 billion USD to over $20 billion in the next 3 to 5 years.

On the comprehensive services side, domestic insurance business has slowed notably, mainly due to the continuous decline in fixed interest rates for domestic insurance. Our current strategy is to focus on insurance products that help clients address their parents' retirement, well-being, and medical needs.

Overseas, the Hong Kong insurance market has entered into a phase of intense competition, with highly homogenous products following the Covid reopening. To address this challenge, we have strengthened client segmentation and collaborated with leading insurance companies to develop exclusive products and customized solutions.

Furthermore, we have launched customized enterprise client solutions, such as employee benefits plans for our entrepreneur clients. This has enhanced our competitive advantage with differentiated products and professional services. During the quarter, overseas insurance revenue increased by 86.8% year-on-year.

Serving high-net-worth clients through both online and offline channels is a key priority for us. We continue to further expand the range and types of clients that we can service through iNoah, our overseas wealth management app. This includes offering different solutions to clients, businesses, and agencies. Online wealth management is becoming our new channel for us in the overseas.

The number of overseas active high-net-worth clients reached 2,745, an increase of 39.6% year-on-year. Total transaction value during the same period reached $1.2 billion, up 50.7% year-on-year. The number of active clients for USD mutual funds reached 2,327, an increase of 65.2% year-on-year, with transaction value of $521 million, up 52.7% year-on-year.

Overseas transaction value for corporate and institutional clients reached $85 million in the first quarter, an increase of 143% year-on-year, with AUA reaching $187 million, a year-on-year increase of 58.5%.

For Agency clients, our overseas online wealth management business began trial operations in late 2023 where it is empowering EAM and family office clients with a SaaS platform integrated with our full suite of products. To date, we have signed 17 agency clients. Our goal is to develop an overseas online wealth management platform that does not rely on our team of RMs. Once our overseas infrastructure is firmly in place, we target to serve 300 EAMs and family offices with this solution.

Since inception, we have dedicated ourselves to providing high-quality asset allocation services to Mandarin-speaking high-net-worth investors. We have built enduring trust-based relationships with each of our clients, and continuously enhance our understanding of wealth management and investment through ongoing investor education. As Mandarin speaking high-net-worth investors become more mature and globally-oriented, the deep trust-based relationships we have built domestically will allow us to continue serving them as they look overseas.

We are dedicated to building personalized services for them, which when combined with our expanding global product portfolio, will give us a significant advantage over local institutions going forward. Our asset-light approach to expanding into key overseas markets with high concentrations of Mandarin-speaking high-net-worth investors and a wide array of products and services, will ideally position us to serve not only our existing clients, but also build a new local client base.

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. Thank you, everyone.

Grant Pan: Thank you, Melo, and thank you, Zander, and greetings to everyone joining us today. As Zander has mentioned, the first quarter of 2024 was impacted by continued volatility in the global capital markets. Shifting expectations around Federal Reserve interest rate cuts have created turbulent conditions in equity and bond markets around the world. As the U.S. dollar strengthened, equity and gold prices moved in tandem, reflecting the complex environment that investors continue to face. Effective risk management and a global diversified portfolio have become crucial to successfully navigating this environment.

Domestically, the A-share market experienced extreme fluctuations as well, which negatively impacted investor confidence, prompting them to take a more cautious and risk-averse approach to investment and further diversify their portfolios. This created substantial challenges and impacted the financial performance of China's wealth and asset management industry.

During the first quarter, 43 listed securities brokerage firms saw total revenue and net profit decline by 20% and 30% from the same period last year. Some leading private banks were also affected, with significant declines in commission income.

In response to the prevailing market conditions, we are strategically restructuring our wealth management operations, consolidating teams and resources from smaller cities to core cities, and pivoting operations and personnel towards global markets where demand for asset diversification is growing. Themes guiding operations this year are transformation and transition. While this transformation may bring short-term challenges, and pressures, including temporary fluctuations in our financial performance, we are confident that it will lay a solid foundation for robust and sustainable growth towards our globalization strategy and generate enduring value for shareholders.

With that, let's get into the details of the first quarter results. On the revenue side, we've seen a slight increase in net revenues from new transactions, with one-time commissions up 6% year-over-year. However, the decline in recurring service fees and performance-based income put pressure on total net revenues, which decreased 19.2% year-over-year and 18.8% sequentially due to seasonality to RMB 650 million in the first quarter.

Net revenue from recurring service fees was RMB 417 million, down 12% year-over-year and 2.6% sequentially, due to a decrease (indiscernible) in the onshore AUM resulting from changes in NAV and also exits from RMB-related investments. Performance-based income was RMB 14 million compared to RMB 83 million in the same period of last year, primarily due to the successful exit of a private equity portfolio company last year.

The bright side is that we are seeing increased interest in USD investment products. In light of the diminished expectations of a rate cut by the Federal Reserve, we are observing a strong and sustained demand from clients for USD cash management products.

It is worth also noting that the transaction value for overseas private equity and private secondary products, which could bring long-term recurring fees in the future, are also generating significant growth, increasing 21.3% and 70.6% year-over-year, respectively, demonstrating the progress we have made in expanding our high-quality alternative investment product offerings.

Looking at the financials, we can see clear growth in overseas business. On an apple-to-apple basis, taking out the impact of performance-based income, overseas net revenues grew meaningfully by 22.4%, and the total overseas net revenues accounted for 47.2% of total net revenues, up 7.2% year-over-year, underscoring the growing importance of a key revenue driver.

With respect to transaction values, we distributed RMB 18.9 billion of products during the quarter, up 12.4% year-over-year and 14% sequentially. However, the immediate contribution to revenue is not yet evident. Despite the high demand for USD cash management products, and also the revenue, recurring revenue from private equity-related products, will not take effect in the same quarter. But it does reflect the progress of continuing making and getting a larger share of the clients' wallets. And the long-term benefits of the increased portion of alternative investment products to future management fees are also yet to be realized in the current term.

By currency, transaction value for RMB products was RMB 10.5 billion, down 8.8% year-on-year and 1.5% sequentially, while transaction value for USD products increased by 50.7% and 40.2% sequentially to USD 1.2 billion.

Overseas AUM grew 6.1% to USD 5.2 billion, accounting for 24% of total AUM, while overseas AUA grew 9.2% year-on-year to USD 8.3 billion, accounting for 24% of total AUA, reflecting our ability to capture a larger share of clients' USD wallets.

Operating costs and expenses experienced a slight year-on-year increase of 0.7% and a sequential decline of 8.8% due to our cost control initiatives.

In detail, compensation and benefits increased by 5% year-over-year and 29.3% sequentially. This was primarily due to an increase in share-based compensation expenses to motivate and retain core talent.

As I mentioned last quarter, we are continuing to consolidate our network in smaller cities and further improving human capital efficiency by reducing overhead expenses. While the financial benefits of these optimizations may not be immediately apparent, we anticipate a gradual and noticeable impact on our cost savings in the future.

Selling and general and administrative expenses combined decreased 6.3% year-over-year and 47.9% sequentially, reflecting the progress our cost controls and efficiency improvement initiatives are already making.

Operating profit during the quarter was RMB 121 million, a decrease of 56.4% year-over-year and 45% sequentially. Operating profit margin was 18.7% during this quarter, below our long-term target range of 30% to 35%, primarily due to the drag from domestic market revenues and periodic organizational restructuring.

Total other income increased by 82.1% year-on-year to 55.3 million, due to continued optimization of treasury management.

Non-GAAP net income during the quarter was RMB 161 million, compared with RMB 239 million during the same period last year.

In terms of clients, as of the end of the first quarter, we had a stable total of 9,568 Diamond and Black Card clients. Specifically, the number of Diamond Card clients decreased slightly to 7,272, while the number of Black Card clients increased to 2,296.

As our overseas expansion accelerates, the number of overseas registered clients continues to grow, increasing 17.1% year-on-year and 5.3% sequentially to 15,725. The total number of overseas Diamond and Black card clients, which require a minimum investment with us of USD 2 million and USD 5 million respectively, grew rapidly to more than 1,500.

During the first quarter, the total number of active clients was 10,391, up 15% sequentially, of which overseas active clients accounted for 2,745, an increase of 9.1% sequentially.

Turning to our balance sheet, we have maintained a healthy liquidity position, with our current ratio at 4.1x, and debt to asset ratio at 16.6% with zero interest-bearing debt.

We have RMB 5.1 billion in cash and cash equivalents, providing ample resources to support our global expansion plans and allocate to shareholder returns, which remains a priority for the Board.

As mentioned last quarter, Noah declared an annual dividend of RMB 509 million and a non-recurring special dividend of RMB 509 million for 2023, subject to final approval at our AGM on June 12, 2024. We expect to pay out dividends, when approved, before the end of July to Hong Kong stockholders and in early August to our ADS holders. We look forward to providing stable and sustainable returns to shareholders and will drive growth across our business.

Looking ahead, our goal is to provide our clients with high-quality and globalized products and services. Restructuring our wealth management channels and realigning our operations and personnel now will allow us to sustainably capitalize on this growing demand. The strategic transition towards overseas markets is still in the initial phases of being built out, and will take some time to mature. But we are already beginning to see the progress we have made reflected in the performance of global business.

While we will inevitably encounter bumps along the road, we are confident in our ability to overcome them, and would like to express our sincerest gratitude to our shareholders' support.

And thank you for listening. I will now open the floor for questions.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Peter Zhang with JPMorgan.

Peter Zhang: (Speaking foreign language). My first question is about the investment sentiment. Starting from March this year, we noticed that the capital market in Hong Kong has recovered. And recently, there's also some real estate supported policies in Mainland China. We are wondering whether Noah observed any improvement in the domestic investment sentiment. Management mentioned during the call that the amount for domestic insurance has declined. We are also wondering what's the client preference for other -- or their interest in terms of the products.

My second question is about the revenue outlook and fee rate. We noticed that the first quarter revenue declined, loss revenue declined, on a year-over-year basis. Can management give us -- or can management explain what's the reason for drivers behind? And what's our expectation for Noah's revenue in 2024?

My third question is about the fee rate for our product. In fourth quarter last year, domestic bank assurance channel experienced a decline in insurance fee rate, as requested by the regulator. Will we see potential fee rate decline for our domestic insurance sales? And what's the potential impact? And apart from the domestic insurance, will we see any other fee rate declining impact for other products we are currently distributing?

Zander Yin: (Speaking foreign language).

(Translated). Thank you Zander, and thank you Peter, for the question. So I'll translate the first question regarding the changes in recent sentiment among investors. So given that we have seen some rebound in the capital markets, or H-share and A-share capital markets recently, I guess in summary, we haven't seen a significant shift or improvement in high-net-worth investors' investment sentiment because building confidence is rather a long-term process, rather than short-term. So the short-term capital market rebound will not immediately reverse the investment sentiment in that sense.

So the second question regarding the domestic insurance, and I guess, the slowdown in demand, as well as the trending downward return or interest rate, I guess it's largely aligned with the domestic interest rate environment, which is also trending down. And I guess the slowdown in the clients' sentiment towards domestic insurance is also a reflection of their investment sentiment in that sense. So right now, in terms of domestic insurance, we are more focused on the products that will satisfy the retirement well-being, as well as the medical needs of clients and their parents, and the type of products that will satisfy those demands.

So the third question regarding the reasons behind the decline in first quarter revenue, I guess the first aspect is that the decrease in recurring service fee or the management fee, mainly because of the active exit activities in our domestic portfolio, and the fact that we do not really introduce new products in the domestic market, which drives down our domestic AUM. But I guess that's a rather active approach.

And the second aspect is that although given we have achieved a great improvement or progress in our overseas business and expansion, but given the current higher-for-longer interest rate environment and the product that fit into that environment, I guess the growth in overseas business is still not fully reflected in our current revenue structure. But we think that to capture and maintain clients' wallet share, even through cash management and term deposit products, is also very important because it is building for future growth when interest rates trend down, that we can translate these products into more fee-generating products, like private equity and hedge fund products in the future.

And thirdly, I guess is the fact that the decrease in carried income and performance-based income because of, I guess, the general exit environment compared to the previous quarter -- the previous year.

So I guess the fourth question regarding the outlook on 2024, I guess overall, the strategy is rather clear, which is to ensure, I guess, safety and compliance in our domestic operations while focusing on deploying more resources and to expand our overseas business. But that process will probably take some time for our overseas business to fully accelerate. We have spent the past 20 years being able to build a rather complete system in the domestic market, and we're hoping that in 3 to 5 years’ time, we'll be able to complete our overseas business infrastructure.

And additionally, I guess the client's trust in us is, I guess, it's very long-term. And the investment demand and needs of high-net-worth investors are also very long term. So as clients look more towards overseas asset allocation, we'll be well-positioned to provide better product and services to them in the overseas and global markets.

So the question regarding the insurance commission fee decrease, so I guess the overall impact on our business is rather small, especially compared with a lot of the insurance brokerage businesses in the market, where most of the brokers have high commissions but low base. Our RMs are more focused on providing long-term value for our clients. And as a business, our primary focus is to satisfy our clients' needs and create value for clients, and help to optimize their asset allocation and portfolio construction. So I guess the short term or the fluctuation in the fee rate of a certain product is not the most -- aspect that we're worried about.

In terms of other product fee rate changes, I guess it's largely in relation to the nature of the products. For example, cash management-related products naturally have a lower fee rate, whereas in the private market, including private equity and private secondary hedge fund products, the fee rate has been rather stable. But that being said, we are still focused on optimizing our clients' portfolio and asset allocation. And we would rather lose a certain client than to lose money, so also going back to creating long-term value for our clients.

Melo Xi: So operator, please note that there is no more questions. Our Chairlady Wang would like to have a closing remark as well.

Operator: All right. This concludes our question-and-answer session. I will now turn it over to management for any closing remarks.

Melo Xi: (Speaking foreign language).

Jingbo Wang: (Speaking foreign language).

Melo Xi: Thank you, Chairlady. So I'll translate for Chairlady's closing remarks.

(Translated). So we have noticed that there are a lot of non-compliant so-called wealth manager in the Chinese domestic market, who continue to default under their private credit products, which has caused significant losses among their high-net-worth clients. So I guess from our perspective, in the past 10 years, China's wealth management has experienced a rather fast-growing, but not-so-healthy growth period.

So standing in today's time, we think that the largest or the biggest risk in the wealth management market in China is that the high-net-worth clients return to poverty because of the wrongly allocated assets, or the wrong asset allocation advice they got. So right now, our main advice to our existing clients is to hold on to their current wealth and portfolio, so that they can preserve their wealth, which is driven for future growth when the opportunity is there.

Internally, I guess, the biggest challenge for us, as we expand our overseas strategy, is I guess how fast we can get used to, or be familiar with, the operation of how global private banks operate. But that being said, we have a very talented core management team, and we do have some very global-minded and top-tier RM teams. So we are still rather optimistic regarding our future growth, especially in the overseas market.

So turning back to you, operator.

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