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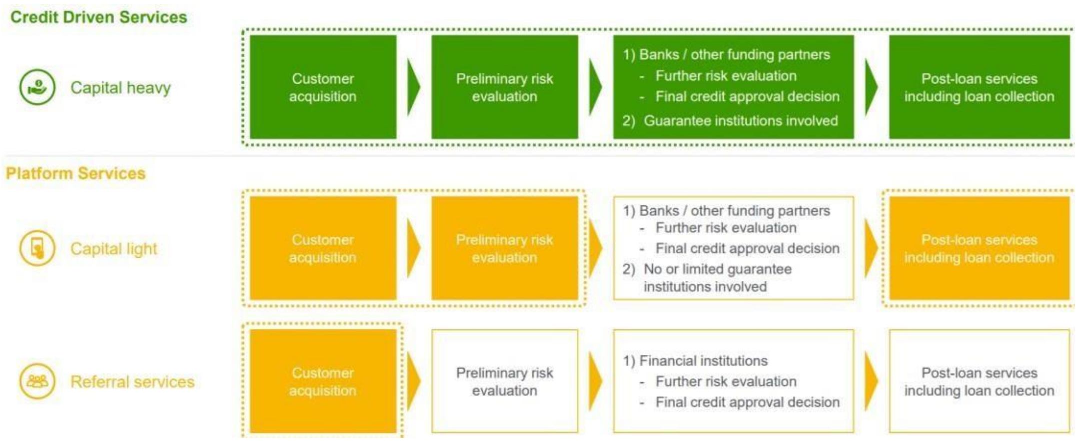
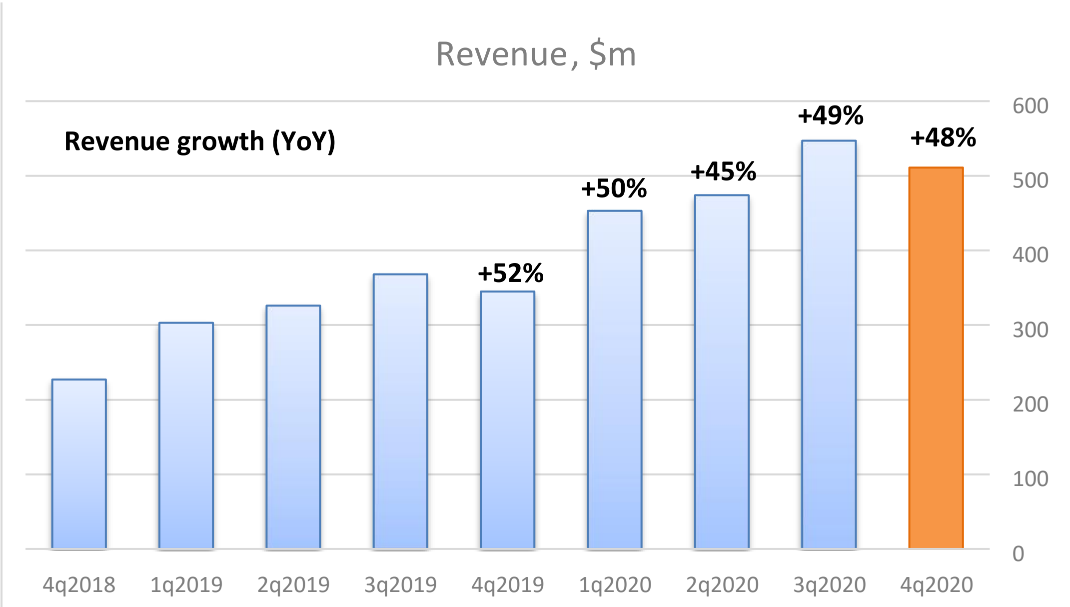
360 DigiTech(QFIN) is a fast-growing Chinese company that operates a digital consumer finance platform that enters a promising new market that is undervalued relative to its competitors.

The platform provides online consumer finance products and offers standardized risk management services to institutional clients in the form of SaaS modules.

The company provides loans to customers through its 360 Jietiao app. Interaction with the borrower begins with the submission of an application, which is processed in 5 minutes. If approved, the client receives offers from 360 Digitech and partners, varying in terms of time, frequency of payments and other conditions from which the borrower can choose the most suitable one.



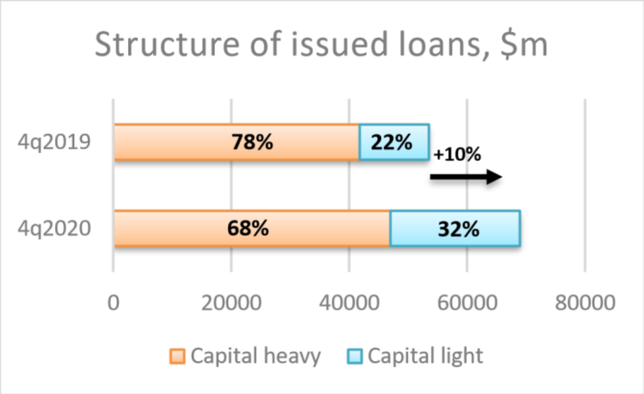
High Historical Revenue Growth of 48.4 %

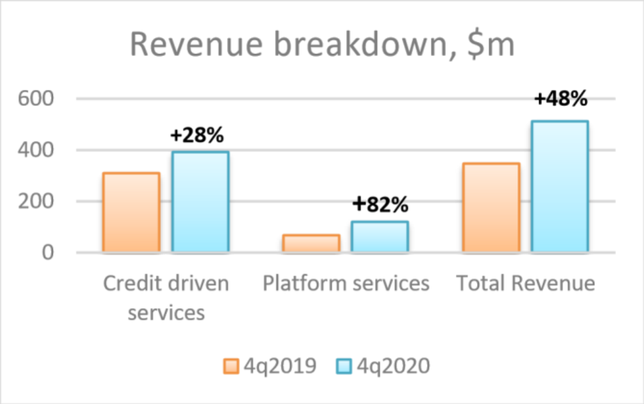


The company shows revenue growth of 48% in Q4’2020, with an average historical growth of 49.3%. The company also has $710 million or 37% of the capitalization on its account.

If revenue is generated from providing loans through the company's funds – the revenue is accounted for the "Credit Driven Services" segment in the Capital heavy model.

If a loan was issued through the partner's funds, the partner gives its part of the revenue to 360 Digitech, which is accounted for the "Platform Services" segment. In the Capital light model, the platform attracts new clients. It uses its resources for a prior risk valuation and client's financial solvency without taking any risks for a borrowed capital, which is an attractive course for development. This segment also includes the "Referral services" – those borrowers that partners cannot serve are transferred to other financial institutions for a client-attraction fee.





Growth prospects: attracting clients from the parent company, acquisition of a share in a licensed bank to enter a new market, a surge in clients from the closing P2P loan segment.

1. Parent company with 500 million customers advertises DigiTech in its services

360 DigiTech is a subsidiary of Qihoo 360, known for the 360 Total Security antivirus and device protection brand with over 500 million users. The annual report for 2019 states that the "360 Group" family has been the most important channel for attracting borrowers throughout the entire time: the mobile application is integrated into the group's products.

DigiTech now has over 25 million customers, of which, management estimates, 20 million came from the parent company, or 4% of Quihoo's total customer base. A strong relationship between the two companies can drive further rapid growth by bringing the parent company's product customers to DigiTech.

2. Acquisition of a 30% share in a licensed Chinese bank to enter a market 3 times larger than the current markets of presence

The graph below shows the segments of the Chinese lending market. With significant market shares in two segments, DigiTech is targeting the Super-prime segment, which offers high growth opportunities. A big step in this area was the acquisition of a 30% share in Kincheng Bank 360 Group in August 2020.

In the latest conference call, the CEO clarified that the effect of joint programs and synergies will begin to be realized in 2021. The management also clarified all potential growth areas from the acquisition of a stake in KCB: easier access to the Super-prime segment; KCB has a banking license, which provides legal access to tax data, which is very important for risk management in lending to small and medium-sized businesses; joint development of tax debt products.

3. End of P2P Lending in China

Only 320 million people have a credit history in China - about 20% of the population. Therefore, for the average citizen of the PRC, obtaining a loan from a Chinese bank is an extremely difficult task. In this environment, illegal and semi-legal loans from MFIs were popular for a long time, which were replaced by P2P lending, in which individuals lent to individuals. China's P2P industry has been an important lending mechanism, but a couple of years ago it was rocked by pyramid scandals that sparked public outrage as well as widespread government repression. As a result, total outstanding loans fell from a peak of 1.3 trillion in 2018 to 490 billion RMB in December 2019, while the number of P2P lenders fell from 6,000 to 708 firms.

Thus, capital is drying up at an incredibly fast pace, as the entire industry is shrinking significantly from regulation. In place of old P2P companies, which in 2019 were given 1-2 years to suspend or abandon P2P, companies like 360 DigiTech are emerging and actively growing. By offering private clients and small businesses the same product, but not from individuals, but from banks and foundations. At the same time, the use of artificial intelligence is aimed at fraud prevention, offering a comprehensive solution to an old problem and customer satisfaction, providing a credit line of up to 20 thousand RMB (3 thousand dollars) in just 5 minutes.

Undervalued company among competitors

The selection includes two direct competitors: LexinFintech and Qudian.

LexinFintech is growing at a faster pace, but is not looking at the super-prime segment, focuses less on risk management technology, and has twice the number of employees.

Qudian initially accepted clients with a high degree of risk and, accordingly, high interest rates. To pay off such debts, borrowers from offices like Qudian turned to the P2P segment. After the collapse of the pyramid schemes, Qudian found itself in a bad position due to its high risk lending policy.

	Ticker	Company	MCAP,$mil	last3m Net Income	P/E Ann.
$m	QFIN	360 DigiTech	5 126	181	**7.4**
$m	LX	LexinFintech	2 152	51	7.3
$m	QD	Qudian	4 617	87	5.13
$m	C	Citi	165 016	3 230	9.9
$m	WFC	Wells Fargo	134 410	1 720	25.8
$m	BAC	Bank of America	368 207	4 440	16.8
		Average value	113 255	1 906	**12.05**

As you can see from the table above, DigiTech is expected at 7.4 NTM P/E, while selection average is expected at 8.45. For comparison, Tinkoff Bank in this case is expected by the market at 15.23 NTM P/E.

Kind Regards,

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