

Waterdrop Inc. (WDH): 3Q21 First Take: Revenue miss, but loss narrows on cost control

Waterdrop (WDH) released its 3Q21 results on Nov 30 before market open, and we summarize the key highlights below:

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- **Net loss narrows on cost control:** WDH reported a net loss attributable to ordinary shareholders of Rmb477mn in 3Q, +117% yoy but down 32% from 2Q (Rmb-698mn). The main driver was the 37% qoq decline in sales and marketing expenses to Rmb782mn, from Rmb1,245mn in 2Q21. This is in line with company's previous guidance, as the company shifted focus away from third-party channel. WDH expects to materially reduce sales and marketing expenses again in 4Q21, compared to 3Q21.
- **Revenue / brokerage income declines on lower take rate:** operating revenue declined 10% yoy and 17% qoq to Rmb779mn in 3Q21, mainly due to decline in brokerage income. WDH attributed this to the decline in take-rate in 3Q21, but noted that take-rate has started to improve as retention has improved once it started to move away from third-party channels.
- On future profitability, WDH noted that with the reduction in sales and market expenses, the company would look to achieve break-even earlier than 2023 (previous guidance), for matured business lines. However, the company didn't provide any guidance on the size of investment for new business lines.
- First-year premium was Rmb4.6bn in 3Q21, unchanged vs. 3Q20 and -13% vs. 2Q21. Furthermore, we believe the mix of long-term product FYP didn't increase, given the balance of non-current contract asset was broadly unchanged qoq. We continue to believe driving long-term product FYP is key for WDH to demonstrate its customer loyalty, as it expands cooperation with insurers and other healthcare service providers. We would closely monitor the trend of FYP in the coming quarters.

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Exhibit 1: WDH 3Q21 results summary

RMB mn unless otherwise stated	1Q20	2Q20	3Q20	1Q21	2Q21	Actual 3Q21	QoQ (%)	YoY (%)	GSe 3Q21E	vs. GSe (%)
Income statement										
Operating revenue	654	681	863	883	939	779	-17%	-10%	1,208	-35%
Operating costs & expenses	-765	-674	-983	-1,344	-1,755	-1,292	-26%	32%	-1,515	-15%
Operating costs	-133	-159	-199	-301	-260	-296	14%	49%		
Sales and marketing expenses	-499	-336	-629	-837	-1,245	-782	-37%	24%		
General and administrative expenses	-65	-122	-102	-121	-149	-111	-25%	9%		
Research and development expenses	-68	-56	-53	-85	-100	-103	3%	93%		
Operating income / loss	-111	7	-120	-461	-815	-513	-37%	329%	-307	67%
Net income / loss	-121	0	-139	-370	-656	-477	-27%	242%	-265	80%
Profit / loss attributable to ordinary S/H	-174	-220	-219	-480	-698	-477	-32%	117%	-265	80%
Non-recurring items	14	90	63	167	86	23		-63%		
Adjusted net loss	-107	90	-76	-203	-570	-454		498%		
Non-GAAP results										
Add: share-based compensation expense	19	91	58	71	87	36		-37.6%		
Non-GAAP operating income / loss	-92	98	-62	-389	-728	-477		671%		
Operating metrics										
First-year premium	3,132	2,760	4,628	4,469	5,357	4,639	-13%	0%		
FYP per customer (Rmb)	882	998	1,103	1,165	1,267	1,292	2%	17%		
Ratios										
Operating costs / Revenue	-20%	-23%	-23%	-34%	-28%	-38%				
Sales and marketing expenses / Revenue	-76%	-49%	-73%	-95%	-133%	-100%				
G&A expenses / Revenue	-10%	-18%	-12%	-14%	-16%	-14%				
R&D expenses / Revenue	-10%	-8%	-6%	-10%	-11%	-13%				
GAAP operating margin	-17%	1%	-14%	-52%	-87%	-66%				
Non-GAAP operating margin	-14%	14%	-7%	-44%	-78%	-61%				
Adjusted net loss margin (%)	-16%	13%	-9%	-23%	-61%	-58%				
Balance sheet										
Contract asset - Current				820	893	732	-18%			
Contract asset - Non-current				24	24	27	15%			
Cash and cash equivalents				1,107	893	711	-20%			
Short-term investments				520	2,343	1,900	-19%			
Total asset				4,372	6,031	5,404	-10%			
Total liability				1,541	1,539	1,377	-11%			
Equity				2,830	4,492	4,027	-10%			

Source: Company data, Goldman Sachs Global Investment Research

Our 12-month target price of US\$9.5 per ADS is based on a 10-year DCF. Key risks: 1) Tightening regulation around short-term medical insurance pricing or commission; 2) lower margin driven by rising competitive pressure; and 3) greater role for the public healthcare system in the overall healthcare industry, leading to structural changes in insurance product mix and/or role of the healthcare platforms.

WDH	12m Price Target: \$9.50	Price: \$1.51	Upside: 529.1%
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Buy		GS Forecast			
		12/20	12/21E	12/22E	12/23E
Market cap: \$595.1mn	Net inc. (Rmb mn)	(1,107.8)	(1,570.4)	(1,016.6)	(320.5)
3m ADTV: \$1.1mn	EPS (Rmb)	(9.43)	(8.27)	(2.58)	(0.81)
China	EPS growth (%)	(147.6)	12.3	68.8	68.5
Greater China Insurance	P/E (X)	NM	NM	NM	NM
M&A Rank: 3	DPS (Rmb)	0.00	0.00	0.00	0.00
	Dividend yield (%)	NM	0.0	0.0	0.0
	P/B (X)	NM	0.9	1.0	1.0
	ROE (%)	-	-	-	-
	P/EV (X)	NM	NM	NM	NM
		3/21	6/21	9/21E	12/21E
	EPS (Rmb)	(4.03)	(2.44)	(0.67)	(0.32)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 29 Nov 2021 close.

Disclosure Appendix

Reg AC

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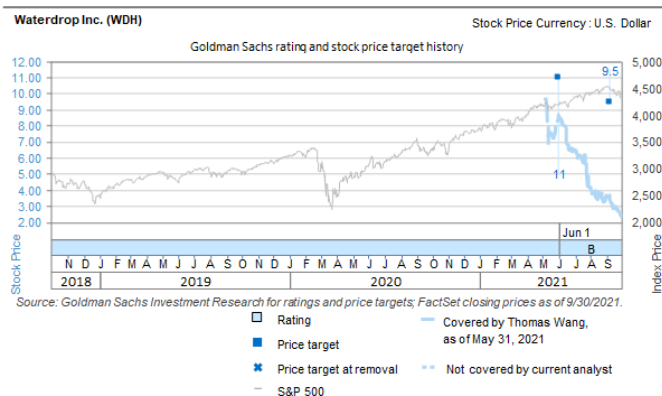
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