

## Q1 2020 China Index Holdings Ltd Earnings Call - Final

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### Body

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#### Corporate Participants

\* Jessie Yang

China Index Holdings Limited - IR Director

\* Yu Huang

China Index Holdings Limited - President, CEO & Director

#### Conference Call Participants

\* Anthony Shi

- Analyst

\* Wei Chan

- Analyst

\* Josh Reade

- Analyst

\* Ki Hengwan

- Analyst

\* Cecom Su

- Analyst

#### Presentation

## Q1 2020 China Index Holdings Ltd Earnings Call - Final

OPERATOR: Ladies and gentlemen, thank you for standing by, and welcome to the China Index Holdings Limited Full Year 2020 First Fiscal Quarter Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I'd like to hand the conference over to your first speaker for today, Ms. Jessie Yang. Thank you. Please go ahead.

JESSIE YANG, IR DIRECTOR, CHINA INDEX HOLDINGS LIMITED: Thank you, operator. Hello, everyone, and welcome to China Index Holdings First Quarter 2020 Earnings Conference Call. Joining us today to discuss CIH's results are our CEO, Ms. Yu Huang; and Financial Controller, Mr. Lili Chen. After the prepared remarks, our management will answer your questions.

Before we get started, I would like to remind you that during the course of this conference call, we may make forward-looking statements, statements that are not historical facts, including statements about our beliefs and expectations. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. CIH assumes no obligation to update the forward-looking statements in this conference call and elsewhere. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the SEC, including our Form F-1.

Now I would like to walk you through our first quarter 2020 results, after which, Ms. Huang will answer your questions for the Q&A session. CIH reported total revenues of RMB 132.8 million in the first quarter of 2020, an increase of 11.5% from RMB 119.1 million in the corresponding period of 2019. Revenues from information and analytics services were RMB 61.4 million in the first quarter of 2020, an increase of 8.1% from RMB 56.8 million in the corresponding period of 2019, primarily due to an increase in the number of customers.

Revenues from marketplace services were RMB 71.4 million in the first quarter of 2020, an increase of 14.6% from RMB 62.3 million in the corresponding period of 2019, primarily due to an increase in the number of customers. Cost of revenue was RMB 19.5 million in the first quarter of 2020, a decrease of 14.5% from RMB 22.8 million in the corresponding period of 2019, primarily due to a decrease in campaign costs as offline themed campaigns were restricted or prohibited due to the quarantine measures implemented in China in response to the outbreak of COVID-19.

Operating expenses were RMB 43.8 million in the first quarter of 2020, an increase of 32.7% from RMB 33 million in the corresponding period of 2019. Selling and marketing expenses were RMB 23.9 million in the first quarter of 2020, an increase of 12.2% from RMB 21.3 million in the corresponding period of 2019, primarily due to an increase in personnel costs, resulting from the growing number of selling and marketing personnel headcount. General and administrative expenses were RMB 19.9 million in the first quarter of 2020, an increase of 69.7% from RMB 11.7 million in the corresponding period of 2019, primarily due to an increase in personnel costs to support our business expansion and the accrual of professional fees.

Operating income was RMB 69.5 million in the first quarter of 2020, an increase of 9.8% from RMB 63.3 million in the corresponding period of 2019. Income tax expenses were RMB 11 million in the first quarter of 2020, an increase of 7.8% from RMB 10.2 million in the corresponding period of 2019. Net income was RMB 63.8 million in the first quarter of 2020, an increase of 19.9% from RMB 53.2 million in the corresponding period of 2019.

Based on current operations and market conditions, management maintains CIH's annual revenue for 2020 to be approximately RMB 695.6 million, representing a year-over-year increase of approximately 20%. These estimates represent management's current and preliminary view, which are subject to change.

Thank you for joining us today, and we're now open for questions. Operator, please go ahead.

Questions and Answers

OPERATOR: (Operator Instructions) We have our first question from the line of [Anthony Shi].

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ANTHONY SHI, ANALYST: Congratulations on the great results. I've got 3 questions. First one is with regards to the growth. Wondering if you guys could break down the growth between new clients' price and also the cross-selling to file for this quarter and also just retrospectively for '19.

JESSIE YANG: Thanks, Andrew. Please give me a second. I will translate for Ms. Huang. (foreign language)

YU HUANG, PRESIDENT, CEO & DIRECTOR, CHINA INDEX HOLDINGS LIMITED: (foreign language)

JESSIE YANG: [Interpreted] Andrew, we did not increase our prices during the COVID epidemic, and we also gave discounts to existing clients in consideration of everyone's economic reality during this time. And so our growth is mostly due to an increase in new clients. And in terms of cross-selling with Fang, we did make the press release earlier that we have terminated the 15% revenue sharing agreement with Fang.

ANTHONY SHI: Okay. Great. The next question I've got is just in regards to your competitive position. So I know you guys say that you're the leader. I think there's one other guy out there, E-House, who has the CRIC. I've asked around. It seems that they charge a little bit more than we do. Just wanted to get your thoughts on how our products differentiate between what they offer, why the prices are different, and also anything else you'd like to add on, just what makes us a bit different from everyone else.

JESSIE YANG: Okay. Thank you. One second. Okay. (foreign language)

YU HUANG: Jessie? Jessie?

JESSIE YANG: (foreign language)

YU HUANG: (foreign language)

JESSIE YANG: (foreign language)

ANTHONY SHI: Yes. How competitor product differentiates -- is different whether we focus on land sales more, whether the others focus on apartment sales more, that type of thing?

JESSIE YANG: (foreign language)

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] Andrew, there are differences between the 2 companies. CIH is more focused on data services and SaaS analytics as well as promotion and research based on data. CRIC is more of a broker. You can see from their annual report that they're mostly -- they do have brokerage services for new home projects as well as alliances with other developers. Their consulting and data services represent a lower percentage of revenue. And in terms of product differences, they're mostly different from ours in that, for example, they do not have a land SaaS tool like CIH. And also in commercial real estate, our database and analytics, they do not have this service. And in terms of data, they are mostly focused on residential real estate, as you have mentioned.

ANTHONY SHI: Great. That's very clear. The last question I have is more in relation to, I suppose, the optics of the company. We're an ADR. And as you know, there's been some controversy around Chinese -- American-listed stocks that are Chinese. This -- I mean business is very cheap at the moment. It's on a trailing P/E of like 3.2. It should be 10x the price, right? And I think part of the reason is what I was talking about there with some of the controversy in the market. But another part of that could be because -- I mean there's so much cash on the balance sheet. Half the value of the company is in cash. You've got RMB 407 million in cash, which is half the market cap. Are you -- how are you thinking about possibly doing some sort of a dividend or buyback just to show that you are willing to give money back to the shareholders? I mean I can't think of a better way to let the shareholders know that you care about them than giving them some money, right? So if I could get your comments on that, it would be great.

JESSIE YANG: Okay. Thanks. (foreign language)

YU HUANG: (foreign language)

ANTHONY SHI: Yes. Sorry. Just to clarify. Just the question is, how is the company thinking about dividends or buybacks in terms of buying back CIH's own shares. That's perceived as also returning capital to shareholders, right? Sorry, just to clarify.

JESSIE YANG: Okay. (foreign language)

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] Yes, Andrew. So we will make press release if we do plan to have a dividend or a stock buyback. So please stand by.

ANTHONY SHI: I mean -- and I retouch it. Getting money out of the country is difficult. I mean do you have plans for an acquisition? Just -- I mean is it the common shareholder -- sorry, common Chairman, who controls everything that happens at both CIH and SFUN? Just want to get aside from just checking what the -- what you guys are putting out in terms of news spreads, just how you think about these things? Because I mean it's a fantastic company. And I think shareholders just want to see some sort of sign that you're thinking about returning capital. That's all.

JESSIE YANG: (foreign language)

ANTHONY SHI: (foreign language)

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] So for the English speakers, because we are listed for less than a year, we do make these types of preparations, but we're happy to discuss further off-line.

OPERATOR: (Operator Instructions) Our next question is from the line of [Wei Chan].

WEI CHAN, ANALYST: (foreign language)

JESSIE YANG: [Interpreted] So the question is...

WEI CHAN: (foreign language)

JESSIE YANG: [Interpreted] So the question is, we see that the company's revenue and profit continue to grow at a double-digit rate in the first quarter, which is commendable considering the epidemic. And the question is we would like to ask management what's the overall plan for the business year. And will we see growth in the next 3 quarters?

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] Thank you for the question. Originally, had it not been for the epidemic, we did expect a higher growth rate based on our existing operations. Due to COVID-19, we do see a slower growth. And in the past quarter, we helped our clients through this difficult time with our platform and tools, which aim to improve their efficiency for their work. And to accompany our clients during this difficult time, we did not increase our prices for any of our clients. And in Q2, we continue to provide our clients with our products and services and look forward to improving and pressing the functionality of our products. And for 2020, we maintain our guideline of 20% overall growth. Thank you.

WEI CHAN: (foreign language)

JESSIE YANG: (foreign language)

OPERATOR: Our next question is from the line of [Josh Reade].

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JOSH READE, ANALYST: Okay. Very pleased with the sort of Q1 results given the environment. I just had a couple of questions. I wanted to get a sense for where the business is sort of heading long term. So I wanted to get an overview of what's management's goal for the company over the next 2 to 3 years sort of revenues and profits.

JESSIE YANG: (foreign language)

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] So in 2020, we did state our plan for growth. And in 2021, if we see a broad economic recovery globally, we believe that CIH will also perform very well. We do have a clear strategy and are focused on existing services and products. And for example, we do seek to first increase the size and depth of our database, and we look forward to developing new products based on the database as a foundation, including tools to serve the real estate development industry. Our goal is very clear, which is to empower the commercial real estate industry through big data and innovative technologies, and we are keen on following this goal. Thank you.

JOSH READE: Okay. And my sort of follow-on question from that was, given the size of the market and also given that the company has about 2,000 or so clients, how many new clients can the company sort of realistically -- or I guess how many clients are there left for the company to acquire over the next sort of 2 to 3 years?

JESSIE YANG: (foreign language)

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] So currently, we have around 2,000 enterprise clients. And on a per user basis, that number is actually much bigger because one company can have multiple accounts. So that's around 10,000 on an account basis. And for the future, actually, the potential for new clients is very big because we are moving from enterprise usage to individual usage. So there, we have a lot of possible new accounts that can be opened. Thank you.

JOSH READE: Okay. That makes sense. But just on the enterprise clients versus individual clients, I'm guessing individual clients will probably have a much lower average spend. So I guess what's the -- so I guess you can probably acquire loads more sort of individual clients. But I guess just to get a sense of a number, how many more enterprise clients is there left to acquire? And how many individual clients could we acquire at the same time?

JESSIE YANG: Okay. Thank you. (foreign language)

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] So in terms of enterprise clients, we do not -- certainly do not have enough clients since China as a whole is still in the beginning stages of digitalization. The trend is towards increasing digitalization and our Chinese clients at the moment represent only the tip of the iceberg in terms of potential clients because we service not only the real estate industry, but also real estate verticals, including property managers, commercial real estate and commercial real estate brokers. So in that sense, we are really at the infancy in development in China in terms of using online tools and online databases. And now more users are getting used to this method and these technologies for their daily work in our industry. So we believe we still have a lot of potential going forward.

JOSH READE: Okay. Okay. Sounds good. And just my last question is kind of similar to Andrew's question, just on the company's cash balances. So I guess given the rate of cash accumulation, the cash balance would probably equal the market cap in a few years. So I wanted to just note -- and I also know the company had a guarantee over Fang's -- Fang Holdings comparable debt. So I wanted to just know does the company anticipate having to repay Fang's convertible debt? Or is there any other sort of acquisition opportunities that the company might use the cash for?

JESSIE YANG: (foreign language)

YU HUANG: (foreign language)

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JESSIE YANG: [Interpreted] So most of this information is in our most recent F-1 annual report. And in the future, we will announce these plans as they come to fruition. But at the moment, we cannot discuss in public.

OPERATOR: Next question is from the line of [Ki Hengwan].

KI HENGWAN, ANALYST: (foreign language)

JESSIE YANG: [Interpreted] For the English speakers...

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] So the question was due to the impact of the recent epidemic, most people can only work from home and maintain their social distance. So that resulted in a surge in demand for cloud services in all industries. And so the question is regarding cloud services. And what is the current situation in the company's cloud products? And what can we expect in the future for its use in our industry? Thank you.

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] So thank you for the question. In terms of cloud services, we did see an increase in the number of users. For example, for our Land Cloud, which we had been promoting for the past year, we saw an increase of 14,000 new users from Q1 during the epidemic. And we have a total of 60,000 registered users, and the increase in one quarter has been significantly greater than all of 2019. And through our Land platform, we did have many online events for our clients in the public during Q1. And over 100,000 to 200,000 active participants joined these events, each event, and this was great marketing for CIH. And we also have the CIH cloud, which is a database cloud that has a cumulative 60,000 users. And we have new database clients moving to the cloud service, and that's around 10,000 users. And this helps our entire digitalization and online service development and promotion for our products. And we also have a property management cloud, which is a relatively new platform for property managers, and we are working currently to build this up. Thank you.

OPERATOR: Next question is from the line of [Cecom Su].

CECOM SU, ANALYST: (foreign language)

JESSIE YANG: [Interpreted] So the question is...

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] Okay. So the question is basically a breakdown of products based on database products, promotion products and analytics products. (foreign language)

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] So our products and services can be broken down into 4 sections. Our database products include databases based on land or cities, regions as well as enterprise, and they form different additions of our database products. And they cover data and information from the land sale to development to the ultimate apartment or commercial real estate sale. And these are the -- serve as the foundation for our analytics services and tools, and the database represents subscription-based products.

The second is our analytical tools and analytics service. This includes the land SaaS tool mentioned earlier, where land developers can see lots of land immediately as well as its relevant information, and they can use our one click report generation tool to write their own reports as well as to supplement his or her own reporting and analysis. And this also includes our commercial real estate, which is a tool for investors and brokers in commercial real estate, and they can also generate their own reports as well as look up the relevant data that they're interested in.

The third area is our promotions, including promotions in the marketplace. And within promotions, there is the real estate -- commercial real estate listing service, which was originally from Fang, and this is a platform for agents and

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clients looking to buy or sell commercial real estate. And the last area is our promotions section, and these are based on our database as well as CIH's authority and brand in the industry, and these promotions are to promote commercial and residential real estate developers' brands, help them with marketing, and they can also be project-based. Thank you.

CECOM SU: (foreign language)

JESSIE YANG: [Interpreted] So the follow-up question is...

YU HUANG: (foreign language)

JESSIE YANG: (foreign language)

[Interpreted] So the follow-up question is we see that marketplace revenue is going higher than the database and analytics. So we would like to just get a perspective on what we expect in terms of future growth in these 2 areas.

YU HUANG: (foreign language)

JESSIE YANG: [Interpreted] So in the first quarter, we saw that information analytics was growing higher than marketplace services. And this is mainly due to the fact that the information analytics are more subscription based. So we normally see that their growth is more towards the end of the year when subscriptions are renewed.

And in terms of promotions, you do see that there are more promotional events in the beginning of the year. So there is some seasonability in that sense. And traditionally, at the beginning of the year for information and analytics, it is seasonally lower. And so we do -- we expect that the first and third quarter to perform normally better than the rest.

And in terms of future trends for growth, we see that data and analytics services have greater potential and demand. And we saw this especially during the epidemic, where our increase in clients were mostly in database and analytical products, especially in our cloud services, and we do expect this trend to continue in the future. Thank you.

OPERATOR: (Operator Instructions) No question as of this time. I'd now like to hand the conference back to Jessie Yang. Please continue.

JESSIE YANG: Thank you, operator, and thank you, everyone, for joining China Index Holdings' First Quarter Earnings Call today. We look forward to speaking with you again for our second quarter 2020 earnings call. Thanks.

OPERATOR: Thank you. Ladies and gentlemen, that concludes the conference for today, and thank you for participating. You may now all disconnect.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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