



**Rating: Sell**

9<sup>th</sup> March 2020

### General

Industry: Fintech  
Current Price: MNT 38.00

### Key Statistics

52 Week Range: 40.83-75.00  
% 52 Week High: 63%  
Shares Outstanding: 800,000,000

Figure 1. Stock Price History



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## Introduction

Founded in 2016, LendMN (the “Company”) is a low-cost consumer micro-loan service provider that operates through the LendMN mobile application, which has been downloaded more than 1 million times. The mission of the Company is to help traditionally under-banked or unserved customers access financial services. The Company also operates a digital wallet that allows customers to purchase goods and services within its mobile application. The Company has rapidly gained customers, however, its operating cashflows have plunged deeper into the red since its founding. Therefore, MICC has placed a sell recommendation on LendMN.

## Key Recent Developments

- Upgraded to a Tier I Company:** In February of 2019, LendMN was upgraded to a Tier I by the MSE. A Tier I company has a market capitalization of at least MNT 10 billion and 25% of it is publicly listed. This indicates Lend has grown its business since 2016 but does not consider the deeper financial health of the company.
- Higher Principals & Longer Terms:** LendMN initially began offering loans with principals between MNT 500,000 and MNT 2 million and terms a month or less. In August of 2019, began piloting a service to provide customers with installment loans of up to MNT 6 million and terms of up to 6 months.
- Partnership with Thunes App:** LendMN has recently begun a partnership with Thunes App, a payments service. The goal of this partnership is to allow digital wallet customers to transfer money across borders with users in Korea and Australia. The Company is currently testing the service internally and aims to introduce it to the market sometime in 2020.
- Change in Digital Wallet License:** In December of 2019, the Bank of Mongolia (BoM) became the regulatory body responsible for issuing digital wallet licenses. The change was sudden, and BoM issued a statement that LendMN did not have the proper licenses to operate a digital wallet. However, the Company does have the licenses required by the Financial Regulatory Committee, the previous agency responsible for digital wallet regulations. While BoM has accused LendMN of operating illegally, the Company still operates its wallet and is confident this a paperwork issue. Sudden changes to regulations like this may be a future risk to operations.

Figure 2. Key Historical Financials

MNT '000	2016A	2017A	2018A
<b>Income Statement</b>			
Revenue	6,299	961,707	7,143,319
Net profit	(7,464)	23,921	2,560,314
<b>Balance Sheet</b>			
Current assets	646,799	6,685,219	23,541,939
Total assets	964,872	7,129,427	24,323,437
Current liabilities	170,254	1,110,888	9,449,021
Total liabilities	170,254	1,110,888	10,969,062
Shareholder's equity	794,618	6,018,539	13,354,375
<b>Ratio Analysis</b>			
Revenue growth	NA	54,075%	651%
Gross margin	NA	3%	37%
ROA	-.77%	-.34%	10.53%
Current ratio	3.80	6.02	2.49

## Company Overview

Founded in Mongolia, LendMN is a non-bank financial institution (NBFI) operating under a special license granted by the Financial Reporting Committee (FRC) of Mongolia. Today, 25% of the Company is publicly owned and 75% is owned by AND Systems LLC. LendMN ultimately operates under the umbrella of its parent company, AND Global PTE.LTD, which is incorporated in Singapore and controls AND Systems LLC. The Company provides Mongolian customers with on-demand, short-term loans and a digital wallet in which individuals can use a phone-based app to make daily payments and financial transactions. The Company brands itself as a fintech solutions company. In its first 18 months of operations, LendMN issued more than 600,000 loans with an average size of USD 70.

### Issuing a Loan

To qualify for a loan, a customer must enter his or her bank account and personal information. LendMN then uses a proprietary algorithm to determine the creditworthiness of the customer. The algorithm rejects 60% of applicants, usually for failing to provide enough information to evaluate the creditworthiness of the applicant. Additionally, the algorithm is self-correcting which allows it to continually refine its criteria for determining client risk. Currently, 163,000 customers have been approved for loans, of which roughly 155,000 have taken out loans. Most customers usually use LendMN's loan services once per year. The Company generates revenue by charging a monthly fee between 3% and 9% of the loan principal. The average fee is around 4% and has decreased slightly recently. LendMN has stated this is because it rewards repeat customers and customers who repay loans early with lower fees.

### Future Goals

Moving forward, the Company is looking to transform itself into a lifestyle app that is integrated into nearly every facet of the Mongolian financial ecosystem. The Company is doing this by allowing users to complete any financial transaction within the application. For example, LendMN is currently working with Nomin Supermarkets to allow customers to pay for groceries using the Lend wallet instead of cash or credit cards. Lend wallet users can also use the application to make hotel reservations, buy movie tickets, or find coupons to local restaurants. The wallet is not currently generating any significant amounts of income. Additionally, LendMN must rely on the aforementioned coupons to entice customers to use the platform., indicating customers may not see the value proposition of the service itself.

LendMN also has a first-mover advantage in the digital lending space, which the Company believes it can use to create and leverage to become Mongolia's leading digital lender and wallet. The Company further believes it can fully supplant the companies currently supplying Mongolian consumers with roughly MNT 300 billion in salary, pension, and other consumer loans. LendMN does not see any competitor that legitimately threatens its growth plans to usurp current lending platforms. LendMN's lack of concern with the competition may prove to be a liability in the future.

Figure 3. Revenue & Operating Cashflow (MNT)

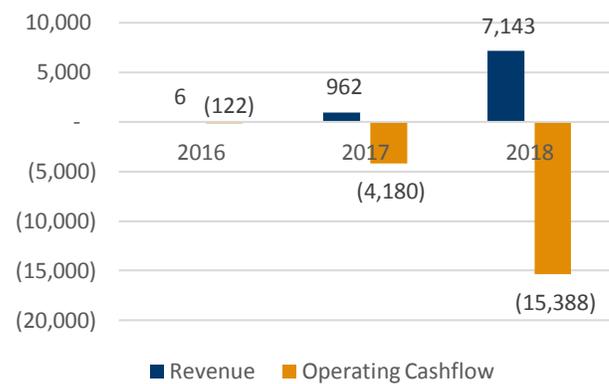
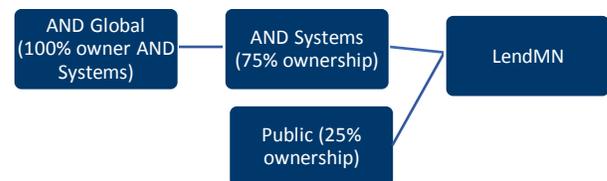


Figure 4. Ownership Structure LendMN



## Governance

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### Board of Directors:

LendMN's Board of Directors consists of 8 members, 3 of which are independent of the Company. The current Board is led by Chairwoman Ms. Delgerjargal. The Board has three committees: Risk Management Committee, Audit Committee, and Nominating and Compensation Committee. None of the board members own common shares of LendMN. All of the board members have a background in finance or economics and hold executive positions in their respective jobs.

### Management:

#### *Chief Executive Officer:*

At a board of director's meeting on August 15<sup>th</sup>, 2019, LendMN appointed Mr. Boldbaatar as CEO to replace former CEO Mr. Gantulga. Also, he serves as a founder and CFO at AND Global LLC. He is a certified public accountant, financier, and auditor. Before his appointment, he worked as an auditor and manager at Ernst & Young, and PwC Mongolia and PwC UK respectively.



#### *Chief Financial Officer:*

Ms. Tuvshinjargal has a total of 20 years of working experience and held numerous roles throughout her career. She has a background as an engineering and economist. Before joining LendMN as CEO in 2016, she worked as a senior credit officer at New Fund NBF1 for 10 years. Since 2018, she has been in charge of the finance department of LendMN.



#### *Chief Technology and Logistic Officer:*

In 2005, Mr. Amgalanbayar began his career as a general manager at MT Group, a leading petroleum importer in Mongolia. He then joined G-Mobile, a mobile phone operator, between 2007 and 2014. During this period, he held two roles, relationship manager and senior sales manager. In 2017, he joined LendMN and currently holds a position as a Chief Technology and Logistic Officer.

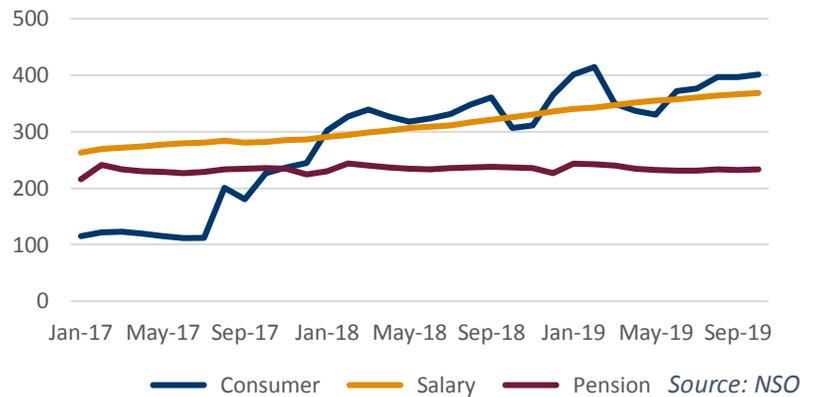


## Market Overview

### Overview

Between 2017 and 2019, annual growth in Mongolian consumer loan accounts averaged 45% and salary loan accounts averaged 11% growth. This growth significantly outpaced GDP growth of 5.3% and 7.2% in 2017 and 2018, respectively. The total value of consumer and salary loans was MNT 5.23 trillion as of November 2019. As a result, this is a rapidly growing market with unmet demand and significant potential.

Figure 5. Growth Loan Accounts ('000)



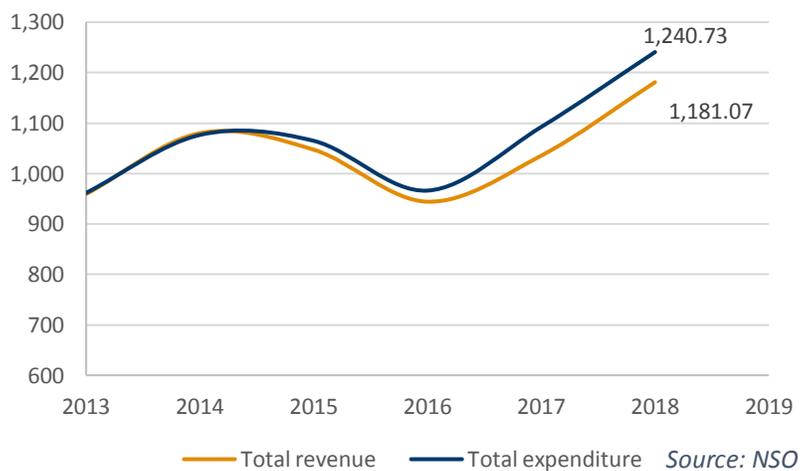
The number of non-bank financial institutions (NBFIs) has also likely peaked around 539 institutions, as the growth rate for NBFIs has steadily fallen from 44% in 2014 to 1% in 2018. Operating income for NBFIs has continued to grow rapidly though, indicating NBFIs are bringing products and services to market that customers need. However, the growing number of NBFIs has led to net operating income per NBFi to fall by 33% since 2015 according to the National Statistics Office.

As demand for loans has grown, consumers have also increasingly demanded brick-and-mortar services be seamlessly integrated and moved into the digital realm. This claim is proven by some of the most downloaded apps in Mongolia, excluding social media and games, being Khan Bank, Golomt Bank, and StorePay among other financial services. Following this trend, it is natural that consumers be able to originate loans and conduct other financial transactions through a digital smartphone-based platform as well.

### Outlook

Mongolian household income is at an all-time high, however, household expenses are also at an all-time high. Since 2015, household income has been between 2% and 5% below household expenditures. This gap is widening, and Mongolian consumers will need to increasingly turn to loans to cover the expenses of everyday life. LendMN and its user-friendly service are poised to take advantage of this gap and connect consumers with cash infusions to help make ends meet.

Figure 6. Mongolian Monthly Household Revenue & Expenditure ('000s MNT)



## Domestic Market

As of Q2 of 2019, 538 NBFIs were operating in Mongolia. Of these 538 NBFIs, 86.1% operate in the capital city, Ulaanbaatar and 91.4% offer some form of lending service. Over the past few years, NBFIs have reported an increasing number of borrowers. Between 2018 and 2019, NBFIs recorded a 2.4 times increase in the number of borrowers, which reached 360,300. The total amount of loans disbursed reached MNT 1.1 trillion in Q2 of 2019, 42.7% higher than the previous year. NBFIs are used by consumers for consumption (71.7%), retail (12.7%), and construction (6.4%) purposes. In Ulaanbaatar, one out of every three individuals uses a micro-lending service. The non-performing loan rate (NPL) is 8.9% among all NBFIs, however, the NPL rate is only 2.9% for NBFIs offering digital lending services.

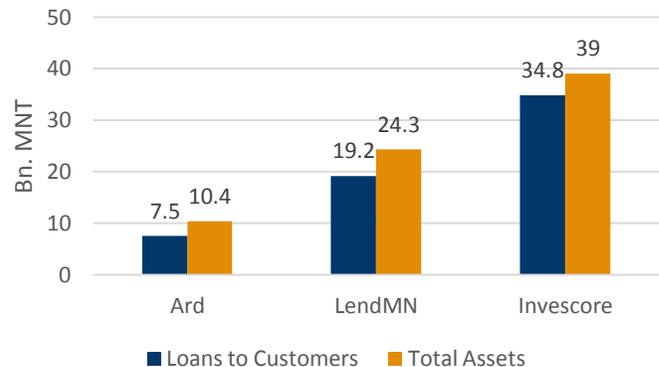
According to the FRC, 7 NBFIs offer mobile-based lending services. The 7 companies are Gerege, Zeely, Numur, ARD, Zeel.MN, Kmobi.mn, and Invescore. Both ARD and Gerege offer digital wallets in addition to lending services like LendMN. All 7 companies offer loans with similar interest rates and fees. Therefore, given the availability of close substitutes, the threat of customers changing lending institutions is high. LendMN has the first-mover advantage which may allow it to better acquire and retain customers, however, this advantage can be easily eroded if Lend fails to recognize legitimate competition.

LendMN's loans outstanding grew 357% from 4.2 billion to 19.2 billion between 2017 and 2018, Invescore's loan disbursements grew 96% year-over-year. Last, ARD credit's loans outstanding declined slightly by 3% year-over-year.

## Industry Trends

In the financial industry, clients are seeking low-cost and easily accessible products and services, and companies are listening to consumer demands. In 2011, investment in new fintech products was \$1.8 billion. In 2020, investment in new fintech products is expected to exceed \$30 billion. Most of this investment has been centered around developing AI, data analysis, and connecting customers to financial services easily and quickly. According to sources like Forbes and KPMG, significant investment in fintech will continue in the coming years. Furthermore, Forbes has stated these investments will be centered around the personalization of financial services through the use of big data and AI as well as increases in the use of mobile payment platforms. LendMN's goals to deliver personalized loans through a digital wallet fit very well with these two things.

Figure 7. Comparison of 3 Largest Public NBFIs Q4 of 2018



## Valuation

From our valuation analysis, we have reached a price target for LendMN shares of **MNT 29.86**, or 21% below its current trading price of MNT 38.00. We reached this target price through the combination of a discounted cashflow (DCF) and comparable companies analysis. A weight of 75% is placed on the DCF price conclusion and 25% on the comparable analysis price conclusion. In our DCF, we derived LendMN's future revenue growth rates using data from the National Statistics Office that then was used to forecast operating income for all Mongolian NBFIs. Additionally, we used a WACC of 20% after examining a variety of appropriate metrics. Ultimately, our DCF yielded a low equity value for LendMN due to its heavy use of debt and the inability to transform its core operations into a cashflow positive enterprise. If LendMN stopped its use of business loans and other sources of debt, LendMN would have difficulty continuing to expand in the future.

### Discounted Cash Flow Method

Share Price Perpetuity Growth							Average DCF Share Value	
		Growth Rate					Enterprise Value (mn.)	22,272
		1%	2%	3%	4%	5%	Less: Total Debt	10,092
WACC	10%	38.23	41.45	45.59	51.12	58.85	Plus: Cash & Equivalents	4,218
	15%	25.51	26.58	27.82	29.29	31.06	Equity Value (MLNS)	16,397
	20%	19.48	19.96	20.50	21.10	21.78	Outstanding Shares	800,000,000
	25%	15.92	16.17	16.45	16.75	17.08	Equity Value per Share (MNT)	20.50
	30%	13.52	13.67	13.83	14.00	14.18		

Meanwhile, for our comparable analysis, we examined a set of six peer companies. The companies we chose provide customers services similar to LendMN and operate in markets with levels of development similar to Mongolia. We then used a variety of metrics to examine the performance of the peer companies, and EV/EBITDA was determined to be the most relevant metric for comparisons between companies. As a result, the mean EV/EBITDA ratio for the peer companies of 17.74 was used to derive a target share price for LendMN. The higher valuation of LendMN using this technique reflects investor confidence in potential future earnings for this industry. However, LendMN's financial statements reveal that this investor confidence may be misplaced.

### Comparable Companies Method

Company	Country	Market Cap (USD mn.)	Net Income	EPS (USD)	P/E	P/S	P/BV	EV/EBITDA
Paisalo Digital Limited	India	254.6	16%	0.19	32.04	5.01	2.72	31.13
LexinFintech Holdings Ltd.	China	392.5	26%	1.62	1.37	0.36	0.66	10.15
Magma Fincorp Limited	Indian	216.9	13%	0.16	5.06	0.65	-0.19	32.61
Finkurve Financial Services L	India	81	>1%	>0.01	664.85	1.39	24.85	401.46
Enova	USA	757.8	21%	2.08	10.81	2.3	2.18	8.27
Invescore	Mongolia	67.3	47%	0.03	35.98	16.85	13.09	-
<b>Mean</b>		<b>324.7</b>	<b>18%</b>	<b>0.6</b>	<b>17.30*</b>	<b>3.87</b>	<b>6.03</b>	<b>17.74*</b>
<b>Median</b>		<b>216.8</b>	<b>18%</b>	<b>0.17</b>	<b>17.78</b>	<b>1.84</b>	<b>2.45</b>	<b>20.64</b>

\*Excludes Finkurve

EBITDA Multiple Valuation (MNT)	
LendMN 2018 EBITDA	2,945
times: EBITDA Multiple	17.74
<b>Enterprise Value ("EV")</b>	<b>52,241</b>
Less: Total Debt	10,092
Plus: Cash & Equivalents	4,218
<b>Equity Value</b>	<b>46,366</b>
Outstanding Shares	800,000,000
<b>Equity Value per Share (MNT)</b>	<b>57.96</b>

Valuation Summary – Target Price		
Valuation Approach	Weight	Price (MNT)
Discounted Cashflow Analysis	75%	20.50
Comparable EV/EBITDA	25%	57.96
<b>Weighted Equity Value per Share</b>		<b>29.86</b>

## Investment Risks

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### Regulatory Risk

LendMN faces uncertainty around the rules and regulations governing its industry. The legal and regulatory framework for NBFIs in Mongolia is inconsistent and differs significantly from other regulations in the financial sector. A sudden change like transferring the right to issue electronic payment license from the FRC to the BoM may happen in the future and disrupt LendMN's operations. Currently, the Company is regulated by FRC like all other NBFIs. According to its mandate, the FRC has established strict rules and regulations about maintaining capital adequacy ratios such as liquidity and bond-to-equity ratios. While LendMN meets the currently established ratios, the Company could face business struggles in the future or higher adequacy ratios which will negatively impact its performance.

### Financial Risk

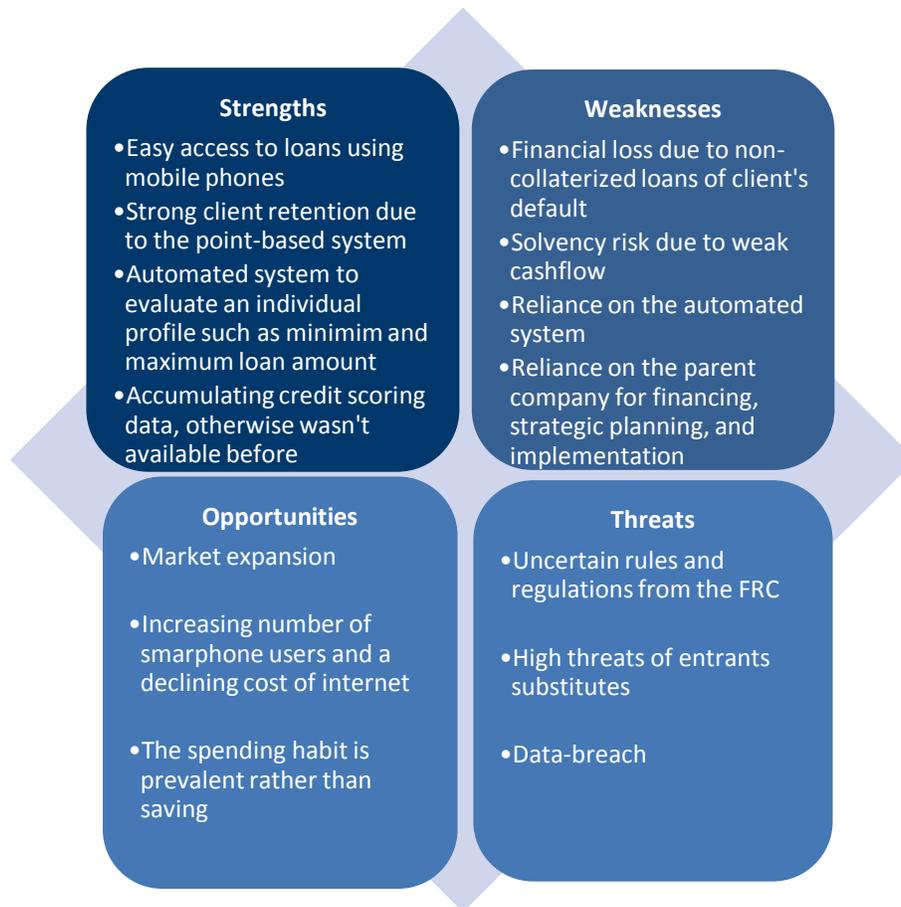
LendMN faces a risk that its loans may not be repaid given the fact that the Company provides non-collateralized loans to clients. There is another risk that the AI system inaccurately calculates the credit score of a borrower, resulting in disbursing funds to unqualified borrowers. Additionally, the credit scoring system may not always be a good indicator of volatility and risk in the economy. As a result, LendMN may find it exposed to changes in economic conditions that impact its profitability. Additionally, LendMN has and will likely continue to finance its future growth using bonds and loans. These loans will grow in size and the Company, like many businesses, may not be able to meet the financial strains derived from a higher debt burden. Should financial pressures mount, LendMN may have to reduce or shutter operations.

### Macroeconomic Risk

Mongolian economic growth in the mid-term looks moderate, around 5-6% according to the IMF. However, the growth is highly dependent on the mining sector that comprises 24% of Mongolia's GDP. Commodity prices are highly volatile and shocks to mineral demand can lead to steep declines in both the value and quantity of mining exports. If commodity prices or demand fall significantly, Mongolia will face an economic slowdown, incomes will drop, and consumers will have difficulty repaying loans and other financial obligations.

## SWOT Analysis

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## Conclusion

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Moving forward, LendMN plans to continue growing its lending portfolio while also becoming the leading digital wallet and financial platform in Mongolia through partnerships with domestic businesses. However, the Company is and will continue relying upon loans and other forms of credit to support its expansion and profitability. Evidence of this heavy reliance on debt financing can be seen in LendMN's increasing liabilities and proposal to raise an additional MNT 5 billion in secondary financing in 2020. A significant amount of this debt could be avoided too, however, the Company is positioning itself to pay out MNT 1.2 billion in dividends for 2020. As a result, LendMN will give away money only to turn to debt financing at a high interest rate to make up for this loss of cash. LendMN also shows no signs of being able to turn its operational cashflows positive in the coming years. MICC has therefore placed a sell recommendation on LendMN with a target price of MNT 29.86.

Overall, the industry LendMN is attempting to penetrate is positioned well for disruption. While LendMN has begun disruption in this area, it seems to lack a profitable plan to sustain itself. The lack of a profitable plan combined with LendMN's reliance on debt and negative cashflows from operating activities will prevent any future upside for this company.

## ABOUT MICC

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Mongolia International Capital Corporation (MICC) was established in 2005 as the first investment banking firm in Mongolia. Mongolia's rapid economic development and favorable financial environment present unique prospects for investment opportunities and growth potential for companies. In order to enable our clients and investors to take full advantage of these opportunities, MICC offers investment banking, asset management, securities underwriting, and brokerage services. In addition, we conduct periodic macroeconomic research, develop analyses of domestic industries and review equities listed on the Mongolian Stock Exchange.

MICC continues to make history in the Mongolian financial sector. We serve leading companies in the mining, manufacturing, financial, retail trade, airline, and construction sectors, and prize our close and long-standing working relationships with our clients. Our goal is to assist both local and international companies realize their strategic goals by offering innovative and efficient financing solutions.

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## DISCLOSURE

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