[FINV] - FinVolution Group
Q1 2023 Earnings Conference Call
May 17, 2023, 8:30PM ET.

Officers
Tiezheng Li, Chief Executive Officer
Jiayuan Xu, Chief Financial Officer
Jimmy Tan, Head of IR

Analysts
Yada Li, CICC
Alex Ye, UBS
Frank Zheng, Credit Suisse

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the First Quarter 2023 Earnings Conference Call for FinVolution Group. (Operator Instructions). After management's prepared remarks, there will be a question-and-answer session. Today's conference call is being recorded.

I'll now turn the call over to your host, Jimmy Tan, Head of Investor Relations for the Company. Jimmy, please go ahead.

Jimmy Tan: Hello, everyone, and welcome to our first quarter 2023 earnings conference call. The Company results were issued via newswire services earlier today and are posted online. You can download the earnings release and sign up for the Company's email alerts by visiting the IR section of our website at ir.finvgroup.com.

Mr. Tiezheng Li, our Chief Executive Officer, and Mr. Jiayuan Xu, our Chief Financial Officer, will start the call with their prepared remarks and conclude with a Q&A session.

During this call, we will be referring to several non-GAAP financial measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation, or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP measures and reconciliation to GAAP measures, please refer to our earnings press release.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties are included in the Company's filings with the U.S. Securities and Exchange Commission. The Company does not assume any obligation to update any forward-looking statements except as required under applicable law.

Finally, we posted a slide presentation on our IR website providing details of our results for the quarter.

I will now turn the call over to our CEO, Mr. Tiezheng Li. Please go ahead, sir.

Tiezheng Li: Thanks, Jimmy. Hello, everyone, and thank you for joining our earnings call. This is Tiezheng Li, CEO of FinVolution. We are happy to speak with you today. The first quarter of 2023 was a challenging one domestically, given the complex macro environment. The Chinese New Year holiday, coupled with China's re-opening post-pandemic, created short-term turbulence throughout the economy. However, despite various headwinds, we delivered another quarter of healthy growth, with total transaction volume up 9.3% year-over-year to reach RMB43.4 billion and total outstanding loan balance up 15.8% year-over-year to reach RMB62.3 billion.

We also steadily and successfully executed our Local Focus, Global Outlook strategy throughout the Pan-Asian markets in which we operate, expanding our borrower base to 28 million cumulatively across China, Indonesia and the Philippines.

In line with our mission of leveraging innovative technologies to make financial services better, we have cumulatively invested over RMB2 billion in technology over the last 5 years. We remain committed to exploring areas such as data tools, natural language processing and other AI technologies to improve our data analysis capabilities, and drive the holistic digitization of consumer finance across multiple aspects. As such, we have integrated natural language processing models into our chatbots, and our AI team developed a real-time data platform combined with strong integrated computing capability to support their applications. These generative, pre-trained models have created a tremendous opportunity for our business to improve user experience and operational efficiency.

We are also pleased to share that FinVolution has officially launched plans to build an open-source model platform, aiming to improve the efficiency and effectiveness of our intelligent marketing and customer service operations. We are confident that as we continue to refine and implement natural language processing and speech-related algorithms into our intelligent chatbots, they will greatly improve the conversation experience between FinVolution and our customers. Specifically, we are currently pilot testing the application of ChatGPT and other language learning models in our CRM System and Smart loan collection system, further driving the digitization progress across all of our customer service metrics.

Approximately 80% of our customer service inquiries are now solved through chatbots, leading to an increase of over 50% in our CRM system's efficiency.

Supporting financial inclusion is another critical piece of our mission and another area where we can capitalize on our cutting-edge, proprietary technologies to deliver outstanding results. Thanks to our Octopus system for high-quality borrower acquisition and our Magic Cube for loan matching, we further reduced our average borrowing rate in the first quarter to 22.7%.

Furthermore, our Magic Mirror technology for credit risk assessment updated with revised algorithms spurred improvement across our risk metrics. These accomplishments alongside our acquisition of higher-quality borrowers, our efficient loan matching process with institutional partners and our consistent, fruitful investments in technology, enabled us to gain recognition from our partners and achieve better-than-expected funding costs, which supported a stable take rate of 3.5% for the quarter.

Before we move on to more operational and financial metrics, I would like to share a brief update on our ESG efforts. In addition to our ongoing endeavors to support financial inclusion, we recently established FinVolution's consumer protection initiatives guided by the high-level goals of Be Responsible and Be Compassionate to help educate our borrowers on their personal finance management. This will gradually improve the quality of our borrowers, as well as our customers' financial lives, benefiting our business while creating value for the society. We look forward to reporting more fully on our ESG achievements when we release our 2022 annual ESG report in the coming months.

In short, we remain convinced that technological innovation will transform the future of consumer finance. Our Local Focus, Global Outlook strategy will guide us as we move confidently through 2023, building on our technological capabilities to expand our customer base and leverage on our strong balance sheet to accelerate the pace of our international expansion.

With our mission firmly in mind, we will continue to invent and deploy creative technologies across all aspects of our operations, empowering rapid business growth while enhancing our customers' lives and delivering greater value to our shareholders.

With that, I will now turn the call over to our CFO, Jiayuan Xu, who will discuss our operational and financial results for the quarter.

Jiayuan Xu: Thank you, Li, and hello, everyone. Welcome to our first quarter 2023 earnings call. In the interest of time, I will not go through all of the financial line items on this call. Please refer to our earnings release for further details.

As Li mentioned, the domestic macro environment continued to present challenges during the first quarter despite the acceleration in the recovery toward the end of the quarter, reflected by improvements in the Purchasing Managers' Index across a variety of industries such as retail, transportation, business services, dining and tourism. However, the index fell to 49.2 in April, below the threshold that separates contraction from expansion, indicating that the economic recovery is still fragile and in an early stage.

Sales of larger ticket items, such as automobiles, telecommunications equipment and real estate also lagged due to the slower recovery of consumer confidence. During the first quarter, the total social financing amount grew by RMB14.5 trillion. However, April's total social financing amount only grew by RMB1.2 trillion, which was way below market expectation. Although there are some near-term fluctuations in the macro data, the overall recovery trend remains positive.

On a brighter note, during the first half of May, we also experienced a sequential increase in our user demand and loan application rate compared to the first quarter and the month of April. As such, our outlook remains cautiously optimistic. We will closely monitor the progress of recovery and expect that growth will accelerate in the second half of 2023.

Domestically, our first quarter transaction volume rose year-over-year to RMB41.8 billion, representing an increase of 8%. Meanwhile, our total outstanding loan balance stands at RMB61.3 billion, up 15% year-over-year.

Given the lingering sluggishness in parts of the domestic economy, we maintained our prudent approach to risk management during the first quarter, and expect vintage delinquency to be around 2.3%. The recent D1 delinquency in April also showed improvement to 5.3%. We are also pleased to share that we achieved a strong loan collection recovery rate of 90% in the first quarter.

As we deepened our commitment towards financial inclusion through our transition towards better-quality borrowers and subsequent improvements in borrowing rates, we significantly optimized our funding cost in the first quarter to 6.7% from 7.8% a year ago. We also grew our cumulative number of funding partners to 78 financial institutions while maintaining a stable average ticket size of around RMB7,900 with an average loan tenure of 8.5 months. Going forward, with our pool of high-quality borrowers, we are confident that we will attract an array of potential partners.

On a related note, we have continued to support small business owners throughout the recent domestic economic downturn. As China's macro economy gradually recovered during the first quarter, we noted steady improvements in this segment's risk metrics. Hence, we maintained our momentum and served 425,000 small business owners during the quarter, with transaction volume accounting for around 24% of our total origination volume.

Now I'd like to share some additional details on our international expansion. Indonesia, our largest overseas market, is still projecting GDP growth of 4.8% in 2023 despite a mild slowdown. The consumer confidence index is high at 100 points, and consumption activities have contributed more than 50% of GDP over the last 10 years. Coupled with cautious fiscal and monetary policies from the central bank, we expect Indonesia's domestic consumption to remain strong.

We are thrilled by the progress we've made in our overseas markets across multiple operational and financial metrics. Cumulatively, we served 3.7 million borrowers in our overseas markets, while our unique number of borrowers for the quarter increased by 24% year-over-year to 737,000. International loan volume soared by 83% year-over-year during the first quarter to reach RMB1.57 billion while outstanding loan balance grew 164% year-over-year to RMB0.95 billion.

Alongside robust operational metrics, international revenue reached RMB448 million, an increase of 166% year-over-year, and contributed around 15% of total revenue in the first quarter. We are encouraged by the pace of expansion in the international markets, and expect its revenue contribution to increase to about 20% of revenue for 2023.

In Indonesia, we continue to expand our local presence and strengthen relationships with local financial institutions, while our partnerships with Bank Jago, Bank Permata and OCBC are flourishing. During the quarter, we also established a new cooperation with SeaBank, an Indonesian tech-based banking company whose mission of bettering the lives of consumers and farmers in the region with technology that strongly aligns with our own.

These thriving relationships have empowered us to increase the proportion of loans funded by local banks in Indonesia to 64% in the first quarter of 2023 compared with just 15% in the same period last year. These achievements clearly reflect the effectiveness of our Local Focus, Global Outlook strategy.

We are encouraged that FinVolution delivered respectable financial performance amid all of the first quarter's challenges. Driven by our consistent investments in technology and our strategic shift towards serving better-quality borrowers, net revenues for the first quarter rose to 3.1 billion, up 25% year-over-year.

Furthermore, given our outstanding operational efficiency as well as our prudent attitude towards credit risk assessment and the write-back of provision due to better-than-expected credit risk performance, net income for the first quarter reached RMB690 million, up 29% year-over-year and 24% sequentially.

Meanwhile, diluted net profit per ADS was RMB2.42, an increase of 34% year-over-year and 27% sequentially.

Our leverage ratio, which is defined as risk bearing loans divided by shareholders' equity, remained stable at 4.3x, indicating the potential for further growth when the economic recovery accelerates during the second half of the year. During such times of uncertainty, our strong balance sheet and liquidity position continues to provide confidence to all our stakeholders. In particular, our cash position remains robust with over RMB7.8 billion of cash and short-term liquidity as of the end of March 2023, representing an increase of 10% sequentially.

Along with our fifth consecutive annual dividend, which we issued last quarter, we also continue to return value to our shareholders through share buybacks throughout the year. In the first quarter of 2023, we deployed around US$13.4 million to buy back our shares in the public market. As of March 31, 2023, the Company has cumulatively deployed around US$196 million for its share repurchase programs. In total, we have returned US$458 million to our shareholders in the form of dividend and share repurchase programs.

Before I conclude my remarks, let me provide some additional color on our business outlook for the second quarter of 2023. Given the unevenness of the domestic economy's recovery, we plan to adhere to our optimistic yet prudent approach in the domestic market while pursuing a more aggressive strategy internationally. Despite some uncertainties in the macro environment, our business trajectory remains solid. The Company will continue to closely monitor the situation and reassess our strategy accordingly.

With the World Health Organization declaring an end to the COVID-19 global health emergency and China's rebounding economy, we are excited and optimistic about our prospects in both our domestic and international markets in the second half of the year.

Going forward, we will focus on accelerating our international expansion and driving technological innovation to attract high-quality borrowers and lending partners alike. As a result, we expect our transaction volume in China for the second quarter of 2023 to be around RMB45 billion, representing an increase of around 11% year-over-year. We also expect our transaction volume in international markets for the second quarter to be around RMB1.7 billion, representing an increase of around 87% year-over-year.

With that, I will conclude my prepared remarks. We will now open the call to questions. Operator, please continue.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Yada Li with CICC.

Yada Li: (Speaking foreign language). Then I do the translation. This is Yada from CICC. The first one is about the loan pricing, and I was wondering when the price will be relatively stable? And from the regulation and funding side, is there any pressure on further decline on pricing lately?

And the second question is, what is the trend of our vintage delinquency? And there is still room for significant improvements in the future?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hi, let me do the translation for Alexis.

(Translated). And for the pricing, we had shared that in the previous quarter that all loans originated on our platform in China are already under 24%, which means fully compliance. In the first quarter, the average borrowing rate was 22.7%. In this category of better-quality borrowers, there are multiple benefits. For example, our funding partners actually value these high-quality customers, and there is actually a significant reduction in our funding cost. Funding cost in the first quarter was actually better than expectation. And in the future, there are also opportunities to leverage on technology such as ChatGPT, AIGC, to optimize the funding cost.

Our intention is to provide the borrowers with more attractive pricing in order to attract higher-quality borrowers who are able to have better credit risk performance, and they are able to have greater loyalty and have more stickiness on our platforms. This will eventually lead to a positive cycle between the companies and the borrowers. And we expect the borrowing rate in the future is expected to be between the range of IRR 22% to 23%. In the first quarter, the take rate was stabilized at 3.5% and going forward, we expect take rate to be around the range of 3.3% to 3.5%.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Okay. Now, let me do the translation.

(Translated). Our vintage delinquency in the first quarter remained stable at 2.3%, and the current cohort and given the current stable macro situation, we are confident to maintain our vintage delinquency at this level. And I would also like to share the performance of our vintage performance during the lockdown last year. And looking back right now, we have realized that the performance of the vintage during the lockdown period was actually better than our expectation at below 2.3%.

And over the last consecutive 8 quarters, we have managed to keep our vintage delinquency low and we have done a lot of work, such as optimizing various metrics of our operation in order to achieve this level. And we can also say that this validates our prudent attitude towards credit risk assessment and also our proven capabilities to successfully navigate through different economic cycles.

Jiayuan Xu: Okay. Yada, is that okay for you?

Yada Li: (Speaking foreign language).

Operator: Alex Ye with UBS.

Alex Ye: (Speaking foreign language). Okay. I'll translate for my question. My first question is on China's growth. So the Q1 loan volume shows a current year decline and a year-on-year growth of around 8%. So this appear to be ticking behind of our full year guidance of 10% to 20% for the domestic business. So would you say the recovery so far you have seen is below your expectation? And is there any banker risk for the full year guidance?

And the second question is on the take rate. So could I just confirm that the 3.5% take rate you mentioned is just for China business only because we noticed for your P&L, your take rate appear to be showing some slightly improvement. So is that coming from the rising contribution from overseas business?

And third question is on international business. Can you give us some color about your funding partners? So for example, how many funding partners you are cooperating, and the combined credit lines that have been granted?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: (Speaking foreign language). Okay. Alex, let me do the translation.

(Translated). From the macro data, you can see that the total social financing data for April had some fluctuations, but was very strong in Q1. And this data was actually slowed down in April, and we can now see that there is some recovery in the Consumer Confidence Index, but still below 100%. And according to the Quarterly Bureau meeting, it also stated that the economy recovery has projected a positive trend, but the interim dynamics and demand is still weak.

From internal data perspective concerning the borrower demand data, we can see that the user application rate on a daily basis in the first quarter increased by 2% compared to the same period last year. Entering into the second quarter, user demand has also been increasing steadily with April daily loan application rate increasing by 3% year-over-year; and in the first half of May, these metrics further increased by 5.4% on a year-over-year basis. And all these improvements indicate a recovery of consumption loans and higher user demand.

We can share that the loan recovery will be weak in the first half, but strong in the second half, which is in line with our guidance. Your understanding is correct. The take rate that we reported of 3.5 points is only for our domestic take rate, and the take rate for our international business will be much higher.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Alex, let me do the translation for you for this question.

(Translated). With regards to our international funding partners, we have already cooperated with three banks, mainly OCBC, Bank Permata, and Bank Jago; and the fourth partner which is SeaBank, which is a well-known tech bank in the region. And you can see that as we have better-quality borrowers, the proportion of loans facilitated by local banks have also increased from 15% in the same period last year to 64% in the first quarter of 2023. And we expect this proportion will continue to increase. We do not have the credit position numbers online. I will follow up with you later in the offline calls.

Jiayuan Xu: Okay. Alex, do you have other questions?

Alex Ye: No, thank you. That's it.

Operator: Thank you.

Jimmy Tan: Okay. Thank you. Operator?

Operator: (Operator Instructions). Frank Zheng with Credit Suisse.

Frank Zheng: (Speaking foreign language). I have two questions. The first one is on a follow-up on the domestic loan volume growth. You mentioned it was due to the softer-than-expected credit demand. And I'm wondering from a supply perspective, with the relatively mild year-on-year growth also due to the reduced risk appetite, and also strengthened screening criteria on credit approval?

And the second question was also a follow-up on the take rate of international markets. The top line contribution was around 15%, but it only accounts for around 4% loan volume. So obviously, it has a higher take rate. But can you provide some more color on the sustainability of such high take rate in the long-term in the future?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: (Speaking foreign language). Hello, Frank. Let me do the translation for you.

(Translated). For our domestic strategy for our borrowers, we are maintaining a prudent strategy. And you should know that, it is related to pricing, and all loans for this year, and since the beginning of this year, all loans are already priced under 24%. Under this strategy, our loan approval rate remains stable without much fluctuation.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Frank, let me do the translation.

(Translated). For our international take rate line, it mainly depends on three factors, pricing, funding costs and also risk performance. All these might have some fluctuations, but it is hard to determine right now because we are also in the process of shifting towards better-quality borrowers. Take rate can also be optimized when we have better-quality borrowers, which in turn, leads to better funding costs with better credit risk performance.

We believe we are able to adjust accordingly to the situation. And I would like to remind that all our pricing right now in the international markets is in line with regulations compliance.

Jiayuan Xu: Okay. Frank, do you have any other follow-up questions?

Frank Zheng: That's all. Thank you very much.

Operator: As there are no further questions now, I'd like to turn the call back over to the company for closing remarks.

Jimmy Tan: Thank you once again for joining us today. If you have further questions, please feel free to contact FinVolution Group’s investor relations team.

Operator: This concludes this conference call. You may now disconnect your line. Thank you.