

[FINV] - FinVolution Group
Q4 and Full Year 2022 Earnings Conference Call
March 14, 2023, 8:30PM ET.

Officers

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

Analysts

Alex Ye, UBS
Yada Li, CICC
Thomas Chong, Jefferies

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the Fourth Quarter and Full Year 2022 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, Mr. Jimmy Tan, Head of Investor Relations for the Company. Thank you. Jimmy, please go ahead.

Jimmy Tan: Hello, everyone, and welcome to our fourth quarter and full year 2022 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. I am Tiezheng Li, co-founder of the Company, and it is a pleasure to meet and speak with all of you today. I am deeply honored to take on the role of Chief Executive Officer and excited to explore the great opportunities and the prospects ahead for FinVolution.

We are happy to speak with you today following the completion of another turbulent year on a strong note. 2022 was a complicated year given the complex macro environment. The situation in the domestic market has been very challenging, with the pandemic resurgences throughout the year leading to varying degrees of lockdown across multiple cities. The Shanghai lockdown was particularly difficult for us as most of our core teams are based here.

However, despite all these challenges, we continued to build on our proprietary technologies and industry-leading digital capabilities, delivering resilient growth each quarter and ultimately producing another set of record-breaking operational and financial results to close out the year. We have invested wisely in technology throughout the year and are pleased to share that as of December 2022, we have successfully registered 212 software copyrights and filed 162 patents in fintech-related areas.

For full year 2022, we achieved our total transaction volume target with RMB175.4 billion in total transactions, representing a year-over-year increase of 28%. Our total transaction volume in the fourth quarter reached RMB48.6 billion, representing a year-over-year increase of 25% and a sequential increase of 7%.

Notably, our full year domestic loan volume grew to RMB171 billion, a year-over-year increase of 28%. And fourth quarter volume rose to RMB47 billion, a year-over-year increase of 24% and a sequential increase of 6%.

Thanks to our effective Local Focus, Global Outlook strategy, international loan volume for the full year also climbed to RMB4.3 billion, representing a year-over-year increase of 16%, while loan volume for the fourth quarter reached RMB1.4 billion, representing an increase of 41% year-over-year.

Concurrently, our total outstanding loan balance stands at RMB64.6 billion, a year-over-year increase of 28%. Our outstanding loan balance in China totals RMB63.8 billion, an

increase of 28% year-over-year. And in the international markets, this number has soared to RMB0.8 billion, representing a year-over-year increase of 167%.

Solid management experience, as well as excellent, flexible execution throughout the year helped us to overcome the year's challenging periods. Leveraging our cutting-edge technologies such as RTA for new borrowers' acquisition, our Octopus system for auto-creation of advertisements targeting high-quality borrowers, our Magic Mirror for credit risk assessment and our Ming Mirror for fraud detection, we delivered robust operational and financial results.

Bolstered by our prudent approach to risk management and our advanced credit risk assessment model, our vintage delinquency rate remained stable and healthy between 2.3% to 2.4% throughout 2022. In 2023, as China reopens, we expect further improvement in this metric.

We also maintained a strong loan collection recovery rate of approximately 90% in the fourth quarter, even amid some turbulence surrounding the easing of zero-Covid policies in December 2022.

With our ongoing efforts to acquire better-quality borrowers, our proportion of category A&B borrowers in the domestic market further increased to 77% of our total borrowers in the fourth quarter from 63% in the same period last year. Coupled with a larger proportion of better-quality borrowers, we have also completed our pricing transition. Our average borrowing rate was 23% in the fourth quarter, reaffirming our commitment to financial inclusion while bolstering our compliance level and alignment with regulatory directives. Looking ahead, we expect borrowing rates to be in the range of 22% to 23% in 2023 due to the increase in the proportion of category A&B borrowers.

Notably, the transition to better-quality borrowers has also helped us to reduce our funding cost, which dipped below 7% in the fourth quarter of 2022 compared with 7.8% in the same period last year.

We have cumulatively cooperated with 75 financial institutions and our pipeline of potential partners remains robust. Looking ahead, we are confident we can achieve progressive improvements in our funding cost as our proportion of category A&B borrowers continues to rise.

Moving on to our second growth driver, our international expansion. We are thrilled to report that during the fourth quarter, improvements across multiple operational fronts led to a revenue contribution of RMB395 million from this segment, representing a 13% contribution to total revenue, as well as an increase of 122% from the same period last year and a sequential increase of 13% from the previous quarter. For full year 2022, revenue from the international segment was RMB1.15 billion or 10.3% of total revenue, a remarkable accomplishment given that international contribution to total revenue just reached a double-digit level for the first time in the third quarter.

Indonesia continued to be the major international market in 2022. Although pandemic-related rules and restrictions have relaxed in many countries, we remain cautious and will

adjust our strategy according to suit local circumstances. Since 2021, we have been targeting better-quality borrowers with attractive interest rates in Indonesia, and our efforts have been recognized by well-known local financial institutions such as Bank Jago, Bank Permata and OCBC NISP, among others. Growing fruitful collaborations with these local partners have led to a rapid increase in our proportion of loans funded by local banks, to 63% in the fourth quarter of 2022 compared to 48% in the previous quarter and merely 10% in the same period last year.

Our success in the Indonesian market is inspiring, and has strengthened our confidence as we expand into additional countries. For example, our outstanding loan balance in the Philippines during the fourth quarter grew over 110% year-over-year. Going forward, we plan to accelerate our pace of penetration in Indonesia and the Philippines while evaluating other potential opportunities in the region. Based on our current assessments, we believe revenue contributions from the international markets will continue to climb in 2023, rising to between 15% and 20% of total revenue, further diversifying our revenue sources.

Last but not least, I'd like to briefly update you on our ESG performance. We published our fourth annual ESG report in 2022, providing a snapshot of our forward-thinking efforts and initiatives aimed at driving sustainability and enhancing value creation for our stakeholders. We also joined the United Nations Global Compact Program, a voluntary initiative to implement universal sustainability practices, demonstrating our corporate values and longstanding dedication of fulfilling our social responsibilities.

Furthermore, we were proud to receive a low risk ESG rating from Sustainalytics for the second consecutive year, a powerful testament to our vision for the future of ESG as well as our current sustainability policies and practices. Going forward, we will strive to promote all aspects of ESG in our operations, including corporate governance and behavior, data privacy and security, human capital development, environmental protection and corporate social responsibility. To ensure alignment with international best practices and enhance our holistic approach to ESG, we plan to expand our cooperation with additional independent ESG rating platforms in 2023.

In summary, our outstanding overall performance in 2022 underscores our strength and stability, as well as our team's ability to overcome challenges. We have built a firm foundation that will empower us to drive long-term sustainable, quality growth. As we forge ahead in 2023, we will continue to embrace our Local Focus, Global Outlook strategy, building on our domestic strengths and successes with an emphasis on serving better-quality borrowers while evaluating more countries and regions to advance our global expansion.

Meanwhile, we will remain dedicated to expanding our healthy customer base, optimizing our product mix and leveraging our technological capabilities to further refine our risk assessment and management framework. With these advantages, we believe that we are well situated to capitalize on the massive opportunities that lie ahead and create greater value for our customers, shareholders and all of our stakeholders.

Next, I would like to say a few words about the management transitions we announced today. Feng is stepping down as our CEO to pursue other interests after 8 years with the Company. On behalf of the board, I would like to take this opportunity to express my sincere gratitude and thank Feng for his outstanding contributions to the Company throughout these years.

Concurrently, the board has selected Mr. Yu Xiang Wang to serve as the Company's Chief Operating Officer, while retaining his current role as Chief Technology Officer, a role which he has held since 2019. From June 2015 to March 2023, Mr. Wang also served as Chief Product Officer. Together with the rest of the board and team, Mr. Wang and I look forward to propelling the Company to even greater heights.

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

Jiayuan Xu: Thank you, Tiezheng, and hello, everyone. Welcome to our fourth quarter and full year 2022 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 Tiezheng mentioned, we are heartened by the strong financial results we achieved in 2022 despite the unique challenges we encountered. Even more encouragingly, our second growth driver, the international segment continued to gain progressive momentum and contributed over 10% of our total revenue in 2022.

Notably, net revenues in the fourth quarter reached around RMB3 billion, up 25% year-over-year with full year net revenues exceeding the RMB10 billion mark for the first time to reach RMB11 billion, up 17% year-over-year, thanks to our ongoing investments in research & development, skillful deployment of our technological capabilities across businesses and the robust execution of our overall strategy.

We also delivered a healthy non-GAAP operating profit of RMB638 million in the fourth quarter and maintained a solid balance sheet with RMB12 billion in total shareholders' equity.

We are very comfortable with our balance sheet and liquidity position. In particular, our cash position remains strong, with over RMB7 billion of cash and short-term liquidity as of the end of December 2022, an increase of 26% year-over-year.

Our leverage ratio, which is defined as risk-bearing loan balance divided by shareholder's equity, remained stable at 4.5x, indicating future growth potential.

During these times of uncertainty, our strong capital and liquidity position, coupled with our low leverage ratio, is an important source of confidence for all our shareholders, including our employees, institutional partners and suppliers.

We also continued to return value to our shareholders through share buybacks throughout the year. In full year 2022, we deployed around USD51 million to buy back our shares in the public market. As of December 31, 2022, the Company has cumulatively deployed

around USD182 million for its share repurchase programs. Our Board has also declared a dividend for our shareholders of USD0.215 per ADS with the payout ratio increasing to 18.5% of net income after tax for fiscal year 2022. This is our fifth consecutive annual dividend declaration, which reaffirms our confidence in our core capabilities, business growth, and long-term market potential.

The historical trend of the Company's average dividend payout ratio for fiscal years 2018 to 2021 was about 15% of the Company's net income after tax in the same period. Between 2018 and 2022, we cumulatively deployed around USD263 million for dividend distributions. In total, we have returned USD445 million to our shareholders under our share repurchase programs and dividend policy.

Last but not least, I would like to thank our employees and partners for their tremendous efforts in keeping our Company strong throughout the Covid breakouts of 2022. Our culture is stronger than ever, and we will continue to innovate as we boldly grow our business both domestically and internationally.

Before I conclude my remarks, let me provide some additional color on our business outlook for 2023. Although we view the reversal of the Zero-Covid policy in China as a positive driver for 2023, we still plan to adopt an optimistic yet prudent approach for the first half of the year in the domestic market, while pursuing a more aggressive strategy internationally. The Company will continue to closely monitor the situation and reassess our strategy accordingly.

Despite the challenging macro environment, our business continues to grow and gather momentum as we focus our efforts on strengthening our international initiatives, propelling technological innovation, and constant acquisition of higher-quality borrowers. As a result, we expect our transaction volume in the China market for full year 2023 to be in the range of RMB189 billion to RMB205 billion, representing an increase of around 10% to 20% year-over-year.

We also expect our transaction volume in international markets for full year 2023 to be around RMB6.4 billion, representing an increase of around 50%. We are excited about the progress we have made in 2022, and look forward to continue success in 2023.

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). The first question comes from Alex Ye from UBS.

Alex Ye: So my first question is on your consumer credit demand trend so far in Q1. So how is the underlying demand you have been observing? And how is the loan volume run rate you are doing in Q1 versus, say, last quarter?

Secondly, on the asset quality trend, could you give us an update about the earlier asset quality indicators in recent months, February and March, or how does it compare to your historical level?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Okay. Alex, let me do the translation for Mr. Xu. The first question is actually related to user demand. At the end of last year, the macro environment has changed a lot due to the reopening. And the period before Chinese New Year, we have seen that demand has increased a lot, up by around 10% to 20% on a year-over-year basis. And after Chinese New Year, we have seen the trend declining, but the overall trend is still positive. We think that the demand is still growing, and it is mostly due to a compensatory recovery. And going forward, we believe that this trend will continue to grow.

Okay. Alex, let me do the translation for the risk as well. The risk trend is actually similar to the demand trend; both had some fluctuations. During the reopening period, early indicators, such as day-1 delinquency, increased rapidly, but it has fallen back to 5.3% right now. And also we have seen the day-1 to 30 collection recovery rate has some fluctuation as well, but right now, it's expected to be 91%, and we have also seen some vintage delinquency remaining stable at 2.3%. Our existing loan books for those loans disbursed during the Covid reopening period has been optimized by 10%, and the current loans disbursed is now below 2.2%.

Okay. Alex, do you have any follow-up questions?

Alex Ye: That's all for me, thank you.

Operator: Yada Li from CICC.

Yada Li: This is Yada from CICC. Thanks for taking my question. My first question today is from the perspective of the choice of lending model, what is the trend of capital-light and capital-heavy in the future? And would there be any plans to inject capital into the small loan license?

My second question is during the Covid pandemic, the growth of our SME segment actually slowed down due to the macro economic impact. And I was wondering about the positioning of SME business in our overall strategy in 2023 and 2024. And what is the proportion in the future? That's all, Thank you.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hey, Yada, let me do the translation for Mr. Xu. Your first question is on capital-light versus capital-heavy. And for the full year of 2022, the proportion of loans

facilitated under the capital-light model was 16%, and we have been making very good progress and the number of funding partners who has cooperated with us under this business model has reached 17. This validates our capabilities to operate under the capital-light model and also the trust our funding partners have in our credit risk assessment models.

We will also monitor the attitude of the regulators towards the capital-light. As right now, we have seen that both models of capital-heavy and light are acceptable to them. We will also consider the attitude of our funding partners and their needs.

Yada, let me do the translation for this question as well. Our focus is on individuals with business certificate or license. The loans are for them for their daily necessities, and during the pandemic, the demand for small business owner loans have actually increased. And from the data that we have seen, during the pandemic period, the delinquency rate is actually about 10% higher than our consumption loans. And with the reopening of the pandemic, the risk has resumed back to normal levels.

And with the gradual easing of the Covid policies, we believe the risk for this segment will be further improved and stabilized compared to our consumption loans. And going forward in 2023, we believe our focus on this segment will still be between 20% to 30% of our loan volume.

Okay. Yada, do you have any follow-up questions?

Yada Li: It's very clear and I do not have any further questions.

Operator: (Operator Instructions). Thomas Chong from Jefferies.

Thomas Chong: Thanks management for taking my questions. My question is about our international business. Given the progress that we are making in Indonesia and the Philippines, which other countries should we expect we are going to further explore the opportunities into the future?

And another question is on the spending in overseas business. How much more spending should we expect this year? And would that affect the bottom line? Thank you.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Thomas. Let me do the translation for Mr. Xu. We are actually expanding very fast in the international markets, as you can see. In Indonesia, we have actually completed the transition to better-quality borrowers, and this is actually much faster than our expectation. And after the transition completion, we have been growing; our growth has actually resumed to above 20% Q-over-Q since the third quarter.

And our outstanding loan balance has grown to RMB800 million by the end of December, growing 167% year-over-year. And this has actually led to a larger revenue contribution. For example, it has contributed 13% of total revenue in the fourth quarter, and for the full year of 2022, it has contributed more than 10%.

Apart from Indonesia, we are also focusing our efforts in the Philippines, which is also growing very rapidly, and we believe will continue to contribute more to our revenue and other operational metrics. In the meantime, we will continue to evaluate most of these Asian countries, and we believe we are able to duplicate our successful Indonesia business model into more countries.

Tiezheng Li: (Speaking foreign language).

Jimmy Tan: Hi, Thomas, let me translate for Mr. Li. As you can see, international expansion is a long-term strategy for our company. We have started our investment in Indonesia 5 to 6 years ago, and you can see that with all these international investments actually need time to bear fruit. And also, we will not sacrifice our short-term earnings for short-term target, but also look for more longer-term investment. And we will constantly keep a balance between our investment and our earnings on a longer-term basis.

Yada Li: Thank you.

Jimmy Tan: Okay. Is that all for you? Okay.

Yada Li: Thank you.

Operator: Thank you. If there are no further questions, now I would like to turn the call back over to the management team for closing remarks.

Jimmy Tan: Thank you all for joining our Q4 and 2022 earnings conference call. If you have any further questions, please feel free to reach out to the IR team at FinVolution. Thank you very much.

Operator: This concludes this conference call. You may now disconnect your lines, please. Thank you.