[FINV] - FinVolution Group
Q1 2022 Earnings Conference Call
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Officers
Feng Zhang, CEO
Jiayuan Xu, CFO
Jimmy Tan, Head of IR

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

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the First Quarter 2022 Earnings Conference Call for FinVolution Group. At this time, all participants are in listen-only mode. After management's prepared remarks, there will be a question-and-answer session. Today's conference call is being recorded.

I will 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 2022 earnings conference call. The Company's 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. Feng Zhang, 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. Feng Zhang. Please go ahead, sir.

Feng Zhang: Thanks, Jimmy. Hello, everyone, and thank you for joining our earnings call. Due to the lockdown in Shanghai, our management team are dialing in from their homes, so please bear with us if we encounter any technical difficulties during the call.

We're happy to speak with you today, following the successful completion of another strong quarter against multiple headwinds. Since March 2022, Shanghai has been under lockdown due to the pandemic, and similar lockdowns have been imposed upon additional cities in recent weeks. Furthermore, other fluctuations afflicting 2021's macro environment persisted through the first quarter of 2022 and have affected certain aspects of our business operations. However, our strong technological foundation and strategic transition towards better-quality borrowers enabled us to flexibly navigate challenges and deliver solid, consistent first quarter results, highlighted by our eighth consecutive quarter-over-quarter growth in total transaction volume. In line with our expectation, we achieved record-setting total transaction volume of RMB39.7 billion this quarter, representing a year-over-year increase of 48% and a sequential increase of 2%.

Now let me share some other major achievements for the first quarter. As we relentlessly and skillfully executed our strategy to acquire better-quality borrowers, transaction volume originated for new borrowers surged to RMB6.4 billion, an increase of 14% year-over-year. Notably, our total outstanding loan balance also increased to RMB53.8 billion as of March 31, 2022, representing an increase of 66% year-over-year and 7% sequentially.

Thanks to our progressive shift towards better-quality borrowers, our ever-evolving credit risk assessment and our self-developed proprietary technologies such as Platform 9¾ and Merak visualized rules engines, we have stabilized our risk metrics at admirably low levels while continuously growing our transaction volume. Platform 9¾ is an algorithm learning system, which combines automatic model design, deployment and management into an one-stop platform that requires just 100 seconds to acquire relevant resources and implement a new model for credit risk assessment, increasing our efficiency tremendously. Merak enables us to swiftly make efficient and appropriate adjustments on complex and iterative operating rules, saving us over 50% in both maintenance cost and time.

Supported by our cutting-edge technologies and prudent management framework, our recent day-1 delinquency rate in the first quarter of 2022 further improved to 5.3% from 5.6% in the fourth quarter of 2021. However, since then, due to pandemic-related lockdowns, this metric has increased slightly to 5.5%, but still within expectations. As our loan collection team is largely based out of Shanghai and spread across several cities, our loan collection recovery rate in May remained strong at above 90%.

Our delinquency rates below 90 days remained low at 1.56% compared to 1.61% in the previous quarter. Our vintage delinquency rates have remained stable for the past several quarters. However, considering the impact of the Covid resurgence in China, we now expect our vintage delinquency for the first quarter to be around 2.4%. In the meantime, we will continue to closely monitor the risk performance of both existing and newly-originated loans.

The impact of the pandemic is manageable for us, as we have been implementing pre-emptive measures such as strategically reducing loan transactions in riskier regions and tightening the approval rate for sectors such as food and beverage, which have been badly affected by the prolonged lockdown. Our ongoing transition to better-quality customers has been validated by the increased proportion of our category A&B borrowers, which accounted for 68% of our total borrowers in the first quarter compared to just 50% in the same period last year. Furthermore, the percentage of loans facilitated at or below IRR 24% increased to 84% in the first quarter, up from 78% in the previous quarter and from just 14% a year ago.

On a separate note, for borrowers who lost their short-term repayment capabilities due to Covid, our customer service team is providing additional assistance for them to help them tide over this difficult period. We are confident that our industry-leading digital capabilities and in-house developed technologies will empower us to overcome this challenging period while achieving regulatory compliance.

While sustaining our strong growth trajectory over the quarter, we also advanced our strategy to optimize our overall funding structure. As we continue to augment and refine our mix of funding partners, we have diversified our platform’s funding sources while ensuring they remain stable, secure and ample. To date, we have cumulatively cooperated with over 60 financial institutions across different provinces and continue to cultivate a robust funding pipeline.

Alongside our substantial progress in our consumer finance business, we also maintained solid growth momentum in our operations aimed at empowering small business owners. During the quarter, we served over 507,000 small business owners across multiple sectors such as retail, wholesale and service industries, among others, representing an increase of 66% from the same period last year, while the segment’s transaction volume increased 123% year-over-year to a record high of RMB9.8 billion, contributing 25% of total transaction volume for the quarter.

Our dedication to providing small-business financing is strongly aligned with the government’s objective of promoting quality financing access for SMEs, especially in the aftermath of the global pandemic. Going forward, we will remain focused on our efforts to assist small businesses, reaffirming FinVolution’s commitment as a responsible corporate citizen.

Turning now to our international expansion, which continues to gain traction, as in our domestic business to enhance our business stability, we have strategically implemented multiple measures such as the transition to better-quality borrowers, improving our product mix, offering attractive interest rates and expanding our partners' base in the international markets. This approach has been bearing fruit. The proportion of better-quality borrowers increased to 54% in the first quarter of 2022 from 28% in the same period last year. With the transition to better-quality borrowers, we have also further strengthened our institutional funding base in the region. And we are confident of securing additional funding as our business grows. With the Covid-19 situation largely under control in Southeast Asia, our transaction volume reached RMB0.86 billion in our international markets during the first quarter of 2022, representing an increase of 13% year-over-year. Of particular note, outstanding loan balances for our international markets totaled RMB0.36 billion, representing an increase of 44% year-over-year and 9% sequentially. We will continue to cultivate our partnerships with different players in the region and introduce new products and services to improve our offering mix. We are confident that these efforts will support our goal of becoming one of the leading players in the region.

Last but not least, I'd like to provide an update on our ESG performance, which is an important part of our growth and long-term value creation philosophy. This quarter's lockdown in Shanghai presented enormous challenges, as well as opportunities, for our team to develop effective ESG solutions. I am incredibly proud to report that our entire organization stepped up to meet and overcome these challenges with creativity, determination and grace. Our IT department quickly provided systems and software solutions to allow our employees to work from home to minimize work disruptions. And our procurement team and administrative team are working relentlessly to obtain supplies and provide ongoing assistance for our employees and partners who are immobilized by the lockdown. On a community level, to assist local authorities, our IT department developed a notification system to provide timely pandemic-related updates for residents in certain areas. Our employees also procured food supplies for volunteers stationed in the Song Jiang district. Finally, we reported last quarter that we received a low-risk ESG rating from Sustainalytics, a leading independent global provider in ESG research, ratings and data. Additional independent platforms, such as Refinitive and ESG Enterprise, have also included us in their ratings, providing our stakeholders with even greater insight into our ESG goals and accomplishments. We firmly believe that our long-term strategic plan, including financial, technological and ESG goals, will lead FinVolution to its next phase of growth and prosperity. As always, our efforts are inspired by our mission of leveraging innovative tech to make financial services better.

In summary, our excellent performance in the first quarter of 2022 underscores our strength and stability, as well as our team's ability to overcome any challenges. Taken together, our high-quality customer base, outstanding credit risk management system and strong overall execution form a firm foundation that will empower us to drive sustainable and quality growth in the long run and further strengthen our leadership position in the industry.

Going forward, we will remain dedicated to acquiring better-quality customers both domestically and internationally, while leveraging our technological capabilities to further refine our credit risk assessment and management framework to optimize our product mix. With these advantages, we believe that we are well positioned to capitalize on the massive opportunities ahead and create greater value for our customers, shareholders and all of our stakeholders.

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, Feng, and hello, everyone. Welcome to our first quarter 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 Feng mentioned, we are encouraged that despite multiple challenges in the first quarter, we still achieved quarterly transaction volume growth for the eighth consecutive quarter while maintaining our risk metrics at a relatively stable level. With our transition to better-quality borrowers, coupled with strengthened relationships with funding partners and consistent technological enhancement, the loan approval rates from our funding partners rose to 76% in March compared to 62% in the same period last year. Our pipeline of potential partners remains strong, and we are confident to achieve meaningful improvement in our funding costs in the near future.

Driven by our consistent efforts in research and development, we have continuously enhanced our chain of technologies throughout our business operations, including customer acquisition and credit risk assessment, among other areas. These efforts have been validated by multiple improvements across our operational metrics.

Leveraging these strengths, our net revenues for the first quarter rose to RMB2.4 billion, an increase of 16% year-over-year. Even more encouragingly, we also delivered a strong non-GAAP operating profit of RMB602 million and maintained a substantial balance sheet with RMB10.8 billion in total shareholders' equity.

During the first quarter, our average borrowing cost remained stable at around 24.3% compared with 26.7% in the same period last year. Of particular note, nearly all loans originated for our new borrowers are under 24%, reflecting our ongoing commitment to financial inclusion and our growing ability to align with regulatory directives. We maintained our take rate for the quarter at a stable pace of 3.9%. Together with our partners' support and our constant efforts in optimizing operating efficiency, we are confident that we can continue to deliver solid results going forward.

With the proportion of our capital light model stabilizing at around 21%, our leverage ratio, which is defined as risk-bearing loan balance divided by shareholders' equity, remained stable at 4.1 times.

Our unrestricted cash and short-term liquidity position increased to RMB6.3 billion compared with RMB5.6 billion in the previous quarter, representing a sequential increase of 13%, further demonstrating the robustness of our balance sheet.

During the first quarter, we continued to target higher-quality borrowers both in the domestic and international markets with attractive borrowing rates as part of our ongoing strategic transition. Our customer acquisition channels remained diversified across online and offline sources, ranging from online information feeds, internet search engines, and mobile app stores to customer referrals and our strong offline direct sales team, supporting a healthy and stable customer acquisition cost.

Apart from our annual dividend policy, we have also been returning value to our shareholders in the form of share repurchases. Between January 2022 and April 2022, we deployed about USD15 million to buy back our shares in the public market. Since we initiated our share repurchase program in 2018, we have cumulatively deployed USD147 million, representing 81% of our total share repurchase programs.

Before I conclude my remarks, let me provide some additional color on our business outlook for 2022. Despite the recurring Covid-19 lockdown in parts of China and a more challenging macro environment, we are still confident that our business operations will continue to gain momentum both domestically and internationally. As a result, we now expect our transaction volume in the second quarter to be in the range of RMB40 billion to RMB41 billion, representing an increase of around 20% to 23% year-over-year. Based on our current assessment, I would like to reiterate that our full year guidance for 2022 remained unchanged.

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). For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, we ask that you please kindly repeat your question in English.

Our first question comes from Yada Li with CICC.

Yada Li: (Speaking foreign language). Okay. Then I'll do the translation part. So the first one is on the funding side. So due to the limited supply, our funding costs actually increased in the fourth quarter last year. And are there any improvement this quarter? And what can we expect to see, and what is the trend of the funding cost in the future?

And the second one is about our international business. So could you please elaborate more on the progress of our product development and also on the optimization of our client base?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hi, Yada, this is Jimmy. Let me do the translation for you.

(Translated). Our all-in funding costs in the first quarter was around 7.8%. And going forward, from the industry, we see a significant demand for better-quality borrowers this year. And during the next few quarters, we are very confident that our funding cost will improve by between 30 to 50 bps. And apart from the funding cost trend, we also see that our approval rates from our funding partners has been improved greatly, and this has actually greatly improved our operating efficiency. These metrics actually improved from 60% to 76% on a year-on-year basis.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Yada, this is Jimmy again. I'll do the translation for you.

(Translated). For our international business, during the second half of 2021, we have been transitioning to better-quality borrowers, just like what we have been doing in China. And we have actually experienced better-than-expectation progress in the transition to better-quality borrowers. You can actually see that on a year-over-year basis, our transaction volume grew by 13% from RMB760 million to RMB860 million. And of particular note, our outstanding loan balance grew by 44% from RMB250 million to RMB360 million.

And at the same time, the proportion of our better-quality customers also experienced improvement and grew to 54% in the first quarter of 2022 from just 28% in the same period last year.

And lastly, you can also see that from the proportion of our installment loans, this proportion actually grew to 55% in the first quarter from the same period of 22% last year.

Jiayuan Xu: (Speaking foreign language).

Yada Li: (Speaking foreign language).

Operator: Frank Zheng with Credit Suisse.

Frank Zheng: (Speaking foreign language). Let me quickly translate myself. I have two questions. The first is on credit quality. We see that 90-day-plus delinquency continued to rise slightly in the first quarter. Can management give more color on early risk indicators in second quarter to date? What kind of adjustments has company done for better risk management? And what's your outlook going forward for the second quarter, as well as the second half of this year as we gradually recover from Covid?

My second question is a quick follow-up on the international markets. For international markets, what kind of growth in terms of volume and earnings contribution should we expect for this year?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hi, Frank, this is Jimmy. Let me do the translation for Alexis.

(Translated). Okay. I know the market is very concerned about the impact of the pandemic, and we have also shared some credit risk data earlier. For example, our vintage delinquency in the first quarter is around 2.4%, and this is about 5% fluctuation compared to the previous several quarters. And on our existing loan balance, the credit performance is expected to increase by 5% to 10%.

And if you compare the situation today with the Wuhan lockdown down back in 2020, the situation today is actually a lot better because the fluctuation back then was more than 10%. This is because of the transition to better-quality borrowers, which we have been adopting over the last few years. And if you take a look today, the proportion of our better-quality borrowers in China actually in the first quarter was around 70% compared to around 50% back then.

And let me now talk about our early-day delinquency metrics. Our day one delinquency was about 5.3% in the first quarter versus 5.6% in the previous quarter. However, due to the impact of the pandemic, our day one delinquencies increased to 5.5% in May, which is still within our estimation.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hi, Frank, let me do the translation again.

(Translated). For our international business, right, we did not set a aggressive loan volume growth target, because our strategy this year is to transit to better-quality borrowers. And based on the current data, the transition progress is better than expectation. And we have a very strong confidence that our growth momentum for our international business will continue in the second half of the year. And also, this is able to diversify away from the risk that we faced in China, like the lockdown in different cities in China.

Jiayuan Xu: (Speaking foreign language).

Operator: Alex Ye with UBS. Please go ahead.

Alex Ye: (Speaking foreign language). So I have two questions. First one is on the pricing. So we have an average loan pricing of 24.3% in Q1, which is flat from previous quarter. So as we are approaching the June deadline for the 24% cap, what's the plan ahead on complying to that? And what's the outlook on loan pricing? And what is the implication on your take rate? How do you expect your full year take rate to trend compared to Q1?

And my second question is on your loan application. So how does your overall loan application compare to the same period last year? Do you see a visible decline? So are you concerned that due to the on-and-off Covid resurgence, which could lead to the borrowers becoming more conservative in their borrowing behaviors, and how would that affect your future growth prospect?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Alex, this is Jimmy. Let me do the translation.

(Translated). Our pricing in the first quarter was 24.3%. And please bear in mind that in the fourth quarter of last year, our proportion of loans under IRR 24% was 80%. And during the first quarter of 2021, this proportion further increased to 84%. We believe we are ready in terms of customer preparation, financials preparation, and regulations, compliance preparation. With going forward, right, we will maintain certain flexibility on pricing. And we believe that in the second half of the year, our pricing will still be around 24%.

Our take rate in the first quarter was 3.9%. We actually have stated earlier, we expect funding costs will improve in the second half of the year, but as our rate has also some fluctuation, that will be offset and our take rate will rapidly maintain at this level.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Alex, let me do the translation.

(Translated). There is some impact on our business, as it has some fluctuations, but this impact is less than 5%. And we also notice that China has introduced positive policy measures to boost consumer confidence. And thus, we are adopting a cautiously optimistic attitude going forward.

Jiayuan Xu: (Speaking foreign language).

Alex Ye: (Speaking foreign language). Thank you. That's all for me.

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: Hello, everyone. Thank you once again for joining us today. If you have any further question, please feel free to contact FinVolution's investor teams. Thank you so much.

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