[FINV] - FinVolution Group
Q4 and Full Year 2019 Earnings Conference Call
Thursday, March 19, 2020, 8:00 AM Eastern

Officers
Feng Zhang, CEO
Simon Ho, CFO
Jimmy Tan, Head, IR

Analysts
John Cai, Morgan Stanley
Daphne Poon, Citi
Alex Ye, UBS
Yiran Zhong, Credit Suisse
Jacky Zuo, China Renaissance
Steven Kwok, KBW
Anna Brown, Seahawk
Lucy Li, Goldman Sachs

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the Fourth Quarter and Full Year 2019 Earnings Conference Call for FinVolution Group, formerly known as PPDAI Group Inc., also known as “Paipaidai”. 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. Mr. Jimmy, please go ahead.

Jimmy Tan: Hello, everyone, and welcome to our fourth quarter and full year 2019 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: http://ir.finvgroup.com.

Mr. Feng Zhang, our Chief Executive Officer, Mr. Feng Zhang, our Co-Chief Executive Officer, and Mr. Simon Ho, 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: Hello, everyone, and thank you for joining our fourth quarter and full year 2019 earnings conference call today. Despite the rapidly evolving market dynamics and uncertainties during the year, we have made numerous positive strides. Specifically, we have successfully repositioned our business by transitioning the funding on our platform from being primarily facilitated by individual investors to being fully funded through our institutional partners. This is a huge accomplishment, and one I would like to thank the hard work and dedication of our partners and employees for making happen.

In the fourth quarter, 100% of our funding was from our institutional funding partners, compared with just over 20% from the year-ago period. Funding on our platform is ample, and we continue to work on driving down our funding cost, which has been declining quarter-over-quarter and year-over-year. We expect this decreasing trend to continue throughout this year.

Our P2P loan balance has also been reduced progressively over the year. This progress is exemplified by the P2P loan balance of RMB5.2 billion as of December 2019, compared with RMB19.5 billion as of June 2019. By the end of February 2020, the balance was further reduced to just RMB2.8 billion, and we will continue to shrink this balance.

As you are aware, there will likely be new nationwide online micro-lending licenses available for qualified P2P platforms. We are in regular communication with the related Shanghai regulators, and we believe we are in a very good position to apply for such a license, which will further solidify our business foundation and enhance our core operations.

Amid our successful business transition, we have also delivered outstanding performance in 2019. On a year-over-year basis, our loan origination volume increased by 34% to RMB82 billion, contributing to a 31% growth in operating revenue to RMB6 billion.

Meanwhile, operating income grew 43% to RMB2.6 billion, with non-GAAP operating margin of about 45%.

These impressive results demonstrate the resilience and flexibility of our business with effective management execution, as well as our strong brand equity that enables us to rapidly expand our partnership with institutional investors. We will continue to deepen relationships with our institutional partners through in-depth technological cooperation and further sharpen our capabilities to navigate through market dynamics.

In 2019, our number of cumulative registered users hit 106 million and the cumulative number of borrowers reached 18 million, indicating a healthy double-digit user base growth year over year. Our extensive and growing borrower base reflects the tremendous demand and growth potential of consumer finance in China, as well as the trust borrowers place in us.

Aside from our successful funding transition, we have concurrently been making significant progress in our strategic initiatives. On the financial institution cooperation front, we completed a strategic investment in Fujian Haixia Bank through acquiring 4.99% of its stake and entered into strategic partnership with them.

In terms of enhanced risk control, our online micro credit lending subsidiary has been approved to connect with the PBOC Credit Reference Center, contributing to a more transparent credit ecosystem.

Our international expansion has also achieved an important milestone with our subsidiary in Indonesia receiving the peer-to-peer lending license from the Financial Services Authority of Indonesia.

With business development in multiple fields on track, we are now rapidly evolving ourselves into a comprehensive fintech company empowered by innovative technologies that serves borrowers and financial institutions in the vast consumer finance space. In order to better align with our current business model and strategy, we have also changed our group name and ticker symbol to better reflect the implementation of innovative technologies throughout our business operations and our expanding business scope.

Now, turning to credit, we have experienced some deterioration in delinquency rates since the fourth quarter due to a complex effect of tightening loan collection practices, pressure from the wide-spread exit of P2P players across the country, and the impact of the recent coronavirus pandemic. We believe many of these factors are transitory.

We will see that our total delinquency rate increased by a few percentage points in the fourth quarter. But this figure significantly over-states the degree of deterioration, as this metric is measured as a percentage of the outstanding loan balance., and due to the slowdown in loan origination volume in the fourth quarter, our outstanding loan balance declined by 16% quarter-over-quarter to RMB29 billion at the end of December.

We have a long and proven track record in managing risk prudently and responsively through credit and economic cycles. Our strong culture and mentality of respecting risks, coupled with the proprietary technologies such as our Magic Mirror credit assessment system, will enable us to manage risk effectively. As the effects of the coronavirus subside, we believe our delinquency rates will show structural improvement as the borrowers we engage with today have stronger credit risk profiles than those on average we engaged with, say, 6 months or a year ago.

Next, let me elaborate more on how the coronavirus has impacted us. Our hearts are with the people who are affected, and we would like to extend our respect to those who are fighting against the outbreak. Together with our employees, we have made monetary donations and donations of masks, medical suits and other supplies to various hospitals.

We now have detected the following key impacts: First, we have deliberately taken a more conservative stance and have purposely slowed down loan origination volume during this period. Second, we have provided borrowers, who have been affected, with greater flexibility in their repayment schedules. Third, delinquencies have moderately increased as a result of the impact on the economy, as well as the disruptions to loan collection operations. We will continue to closely monitor the pandemic situation, and together with our partners, FinVolution is adjusting its business strategies to minimize the impact on our operations.

We have also announced some management transitions. Cliff is stepping down as Chairman and Co-CEO. This transition has been well planned for some time. Back in September 2018, I became Co-CEO together with Cliff, and for the past 18 months, Cliff's responsibilities have been shifting towards my way. I would like to take this opportunity to thank Cliff for his outstanding contribution to the Company over the past decade. We look forward to his continued support in his new role as our advisor.

At the same time, I would like to extend a warm welcome to Mr. Gu, or Jack, as we all call him in the Company, as the Chairman of the Board of Directors. We look forward to Jack's contributions in his new role, leading the Company to greater heights.

In spite of a dynamic and volatile operating environment, our strong performance in 2019 reaffirms the enormous underserved demand for consumer finance services in China. By leveraging our extensive proprietary technologies and market leadership, we are dedicated to strengthening our ability to provide a superior experience to both individual borrowers and financial institutions.

Last, but not least, I would like to take this time to thank our employees for the tremendous efforts that put into to keep our Company strong throughout a tough time during the outbreak. Our culture is as stronger than ever, and we will continue to be innovative and aggressive about navigating and growing our business.

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

Simon Ho: Thank you, Feng, and hello everyone. We realized solid profitability amid fast-evolving market conditions in 2019. Despite our full transition into institutional funding, we delivered non-GAAP operating income of RMB445 million and maintained a healthy non-GAAP operating margin of 36% in the fourth quarter.

Our operating margin did decline versus the third quarter, but this is mainly because loan origination volume decreased and not because of the take rate. In fact, our take rate in the fourth quarter was stable compared to the third quarter, and this is a quarter in which all 100% of loan originations were funded by institutional partners, providing very clear evidence that our institutional funding model is robust, profitable and sustainable.

Our balance sheet has also remained solid with approximately RMB2.4 billion of cash and short-term liquidity. Notably, our quality assurance fund remains sufficient with a total balance of RMB5.1 billion, equivalent to 24% of the total outstanding off-balance sheet loans and interest with quality assurance. Our results demonstrate the resilience of our business model and our ability to adapt to the changing regulatory and market dynamics.

Now, let me briefly go over the financial results for the fourth quarter. In the interest of time, I will not walk through each item line-by-line on this call. Please refer to our earnings release for more details.

Operating revenues for the fourth quarter of 2019 decreased by 4.4% to approximately RMB1.23 billion from RMB1.29 billion in the same period of 2018, primarily due to the decrease in loan facilitation service fees.

Loan facilitation service fees decreased by 36% to RMB539 million for the fourth quarter of 2019 from RMB837 million in the same period of 2018, primarily due to the decline in loan origination volume and a decrease in the average rate of transaction fees.

Post-facilitation service fees increased by 10% to RMB276 million for the fourth quarter of 2019 from RMB250 million in the same period of 2018, primarily due to the rolling impact of deferred transaction fees.

Net interest income was RMB317 million, compared to RMB70 million in the same period of 2018, mainly due to the increased interest income from the expansion in the outstanding loan balances of consolidated trusts.

Non-GAAP adjusted operating income, which excludes share-based compensation expenses before tax, was RMB445 million for the fourth quarter of 2019, representing a decrease of 6% from RMB472 million in the same period of 2018.

Other income was RMB35 million for the fourth quarter of 2019, compared with RMB94 million in the same period of 2018, primarily due to a lower gain from the quality assurance fund in the quarter.

Net profit decreased by 47% to RMB413 million for the fourth quarter of 2019 from RMB775 million in the same period of 2018.

Next, let me give a few further updates. Guidance, now due to the moderate increase in delinquencies we saw towards the end of last year, and with the prolonged impact of the coronavirus, we have taken a more conservative stance on loan origination volume in the first quarter. As a result, we expect loan origination volume in the first quarter of 2020 to be in the range of RMB12 billion to RMB13 billion.

Although the first quarter has not been easy, we expect these trends to be transitory and will be in a position for growth when the conditions normalize. We have seen some early signs of improvement in recent weeks, as people across the country are returning to the office and work floors, economic activity is picking up.

We have seen delinquency and loan collection rates improve steadily and returning in recent days close to the levels we saw before the outbreak of the coronavirus. These are very encouraging trends for our business and the economy.

And during this period, we are keeping a tight discipline on our expenses. For example, we are spending less on customer acquisition, as we have shifted loan originations further towards repeat borrowers. We are also proactively managing down funding costs with our institutional partners.

Now, turning to capital return and share buybacks, we repurchased approximately 4.2 million ADS between December 2019 and January 2020. As of January 31, 2020, we have cumulatively deployed approximately USD79 million to repurchase the Company's ADS under our share repurchase program with a total authorized amount of USD120 million.

We are very comfortable with our balance sheet and liquidity position. In particular, our cash position remains strong with approximately RMB2.4 billion of cash and short-term liquidity as at the end of December 2019. During these times of uncertainty, our strong capital and liquidity position is an important source of confidence for all our stakeholders, including our employees and institutional partners.

Finally, we are very pleased to announce a dividend of USD0.12 per ADS for the fiscal year 2019. Despite the volatility and challenges in the operating environment, this validates our commitment to enhancing shareholder value, and our continued confidence in the business, our capabilities and the long-term market potential.

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.

John Cai, Morgan Stanley.

John Cai: Hi. thank you management for taking my questions. I have two questions. The first one is on the risk. Given the outbreak of virus in the first quarter, just wonder is there any more colors or quantitative measures that we can provide on the increase of the delinquency? And also how would that impact our provision in the first quarter because I think some of the peers are expecting a material loss in the first quarter. Just wonder is there any more color on our profitabilities in the first quarter given the situations?

My second question is about the take rate. So just wonder what is the take rate now? And if we are talking about the borrowers' APR, what is the current level? And the APR and the take rate, is that the level that we should expect in the coming years? Thank you very much.

Simon Ho: Thanks, John, for the questions. I'll start off with the answer to your question about delinquencies, and Feng can chime in and add on if there's more information to discuss. So as we mentioned earlier, we have experienced some deterioration in delinquency rates since the fourth quarter, because of tightening of loan collection practices, there's pressure from the widespread exit of P2P players, and of course, there's the impact of the coronavirus. Whilst we have said in the past that our delinquency rates will structurally improve due to our gradual shift towards a better quality borrower segment, the events in the past few months have delayed this improvement.

We believe the coronavirus impact recently has added around 0.5% to 1% to our vintage delinquency rates. As a result, we expect our recent vintages to show cumulative delinquency rates remaining in the 6% to 8% range. We will continue to closely monitor the situation, but believe that as the impact of the coronavirus recedes, conditions normalize, we expect our vintage delinquency rates to improve and decline below the 6% level.

And as mentioned earlier, we have in recent weeks seen some encouraging signs of improvement in delinquency and loan collection rates, which are back close to levels seen before the coronavirus outbreak.

I want to see if Feng wants to have anything else to add on the risk side.

Feng Zhang: No.

Simon Ho: Okay. Now, your question about where the provisions in the first quarter could be, I think Q1 is a challenging quarter for everyone. Delinquency rates are, for us, I would call it moderately higher; loan volumes have declined versus the previous quarter. Clearly, revenues and earnings are being impacted. Now, our preliminary thinking is we don't think we report a loss, but we'll have to wait, of course, until the first quarter ends, the earnings come in and see where the numbers actually come in on.

So I think -- but take comfort, we are obviously doing as much as we can on the cost front, and the obviously recent signs on the delinquency side have been encouraging, as we've highlighted just now.

Now, in terms of where we are in terms of the take rate and sort of lending rate levels, let's talk about the lending rate levels. As many of you know, there is no official formula still, or method for calculating the 36% legal maximum for the total borrowing cost. However, most of our institutional funding partners require the 36% to be defined in the strictest way on an IRR basis. So as we've been saying all along, all the loans that are funded by our licensed institutional partners are strictly kept at the 36% measured on an IRR basis. And this will remain this way as long as we continue to work with such institutional partners of ours.

In terms of the take rate, so our take rate was stable, pretty stable, in the fourth quarter versus the third quarter. The absolute level was just over a little over 4%. And the point is even though we shifted completely to institutional funds, this does show the economics of our institutional funding model is healthy and profitable. Now as you know, the take rate, as we account for it in the fourth quarter, is also a function of credit risk levels. And as we've guided, the delinquency rates have increased this year and so this will naturally put some pressure on the take rate. But as we've said before, the magnitude of our delinquency rate increase has been relatively moderate and manageable.

But before -- John, before I hand over back to you and see if you have any further-on questions, I do want to take the opportunity to speak a bit more about how we do risk management at FinVolution. We have all along been emphasizing our strong capability and culture of risk management in the Company. We have a long-proven track record in managing risk. We have proprietary technologies and systems, such as our Magic Mirror credit assessment system, fraud detection technologies. We also have a large in-house loan collection team with over 1,000 collection agents.

And for those of you who have followed us since our IPO, you'll recall that our CEO Feng joined the Company as our Chief Risk Officer. So the culture of risk management runs deeply in the Company. We are always vigilant on credit risk and as you know, over the past few years, our average loan tenures and ticket sizes have not changed much, and we have been shifting our borrower base towards better credit risk profiles. And in fact, if you look closely at the vintage delinquency rates we disclosed today, you'll see that our third quarter 2019 vintage is meaningfully better than the earlier vintages.

Obviously. the data you see do not yet reflect the impact of the coronavirus, but the improving trend in the data is evident of this shift in the borrower profile that we have been talking about.

And lastly, we've obviously been conservative in setting aside reserves for credit risks, and you can see this in this quality assurance coverage ratio, which we disclosed at around 24%. Again, I just want to emphasize we have a prudent approach to managing risk and it does put us in a better position than some of our peers when credit risk is rising.

John, I'll hand it over to you if you have any further questions.

John Cai: Yes, thank you, Simon. It sounds encouraging given the situation. So a little bit follow-up on the QAF. I think it's 24% now, but I look at the mix a little bit. So it seems the restricted cash portion declined quarter-on-quarter probably due to the reduction from balance. But my question is on the receivables. So just wonder do we consider the potential delinquent provision that we need to make on the QAF receivable? And also in the first quarter, given the risk level, should we expect the 24% to come down a little bit? Thank you very much.

Simon Ho: I think those are great questions. The movements in the quality assurance-related restricted cash and the quality assurance receivables in the fourth quarter really all relates to the fact that during the fourth quarter, we began returning funds to certain investors, a portion of our investors, in our investment programs ahead of schedule and we early repaid these investors back their money. So the movements you see in our restricted cash, which fell about RMB2.3 billion in the fourth quarter, and also the movements in the quality assurance receivables is actually a reflection of this.

It's nothing to do with increased credit risks, but if you want, I'd be very happy to go through with you some of this accounting offline and walk you through the details.

John Cai: Thank you, Simon.

Operator: Daphne Poon of Citi.

Daphne Poon: Hi, thanks for taking my questions. So my first question is regarding the funding cost trend. So you mentioned in the prepared remarks that the funding cost has been trending down. So just want to check on the magnitude, what the funding cost looks like in 4Q and also in Q1 2020. And given the recent coronavirus situation, do you see any change in the attitudes of your funding partners, whether they're getting more cautious about the partnership recently?

And the second question is regarding the license, the micro lending license. You also mentioned earlier that you are seeing some good progress. So just wondering any color on the timetable, when we should expect that license should be approved?

Simon Ho: Sure. Thanks, Daphne. Firstly, on funding costs, managing down our funding cost is a high priority for us this year. The banks' appetite to work with us remains strong and we have a healthy and robust funding pipeline. The tightness in funding in the fourth quarter was seasonal, and in the first quarter, liquidity in the banking system is back to normal and is ample.

Currently, the funding costs for our new contracts is running between 9% to 9.5%. If you recall a year ago, we were running more closer to the 11% level, and as we approached the end of the year, it was closer to around the 10% level. So our funding cost has been declining over the past year, and we expect this declining trend to continue throughout this year.

With regards to the micro lending loan license, as we said, we are interested and we'll strive to obtain one of these new micro lending licenses and we are in constant communication with our local regulators. The timetable is likely to have slipped because of the coronavirus, but we still believe we are in a good position to successfully apply for this license. And I think the continued smooth and successful wind-down of our P2P loan balance adds to our case for obtaining such a license. So the timing is not 100% clear. I don't believe -- Shanghai has not yet accepted applications. It's being pushed back a little bit, but we still think we're in a pretty good position.

Feng Zhang: Yes, I would just add a couple of thoughts on --

Daphne Poon: Okay.

Feng Zhang: Hey, Daphne, I would just add a couple of thoughts on the funding cost piece. I think from both supply and demand side, we are fairly optimistic that we will see for the funding costs decline throughout the year. I think from the demand side, as the economic impact of coronavirus, the global governments are gonna to put more stimulus. And there will be -- we expect to see ample funding, monetary easing, and a funding supply.

And on the demand side, going through this cycle, you actually will clearly see that there will be smaller pool of quality asset providers in the market. And we have, in the recent months, definitely seen increasing demand from our institutional partners for quality asset from our Company. So combining these two factors, we are very optimistic that throughout the year, we will be continuing seeing funding cost declines.

Yes, continue, continue.

Daphne Poon: So do you have any target, I guess, on the funding cost? And I guess in that sense, would that actually help your take rate? Is there any chance for your take rate actually to improve because of funding cost decline? And also on the licensing, just any sense about, I guess, whether we should expect the license to come in 2Q or whether it's in the second half of the year? Yes, just maybe any more color on that?

Feng Zhang: Yes, that's a good question. I think on the funding cost side, I think it's difficult to put on an exact number. As Simon has mentioned, currently, we are in the range of 9% to 9.5%. I think there's definitely a space to go close to 9% or even below 9%. But like know where exactly that can go, I think we will need to see how the market goes. And obviously, any bps drop on these contributes very directly way to ROA, so it's pretty easy math. And I'll let Simon handle the micro lending question.

Simon Ho: Sure. So Daphne, we really don't know. I think our original expectations -- and this is just sort of our feel -- was originally was that by sort of the end of the first quarter, there will be obviously more concrete actions being taken. I wouldn't say we were expecting the license to be given out; at least the process would have been started more evident. Clearly, I think a lot of things in China are being put off for several months. So we're hopeful that sometime in the second quarter, there will be obviously concrete activity towards this front.

Daphne Poon: Okay. That's very helpful. Thank you.

Operator: Alex Ye of UBS.

Alex Ye: Hi management, thanks for taking my questions. I have a couple of quick questions. First one on volume-wise, so you mentioned that in Q1, you have taken a more cautious approach given the outbreak of the COVID-19. So just wondering how is the demand looks like currently? So for example in terms of the daily loan vacations, what's the current level you're seeing versus the normal time before this outbreak?

And apart from the demand prospective, so maybe also tightening on your approval, so just want to have a sense of your current approval rate versus your normal time approval rate. So that's my first question.

And secondly, on your delinquency, you've mentioned that we have been seeing gradual improvement in the past few weeks. I'm just wondering how much of that would you attribute to the gradual work resumption in China? And how much would you attribute to the improving the recovery of your loan collection efficiencies? So it would be great to have some color on that.

And also, given you mentioned that your delinquency is now gradually back to the levels between before the virus outbreaks. So does that mean we will probably not see a very big mark-to-market loss in Q1, given the assumption on the delinquencies?

Simon Ho: Right. Alex, I'll talk about your second question first. Whether there's a big mark-to-market loss, hit, I think we'll have to wait a bit and see. Clearly, the magnitude of the delinquency rate increases. As we've reiterated, it's been relatively manageable. So I think we'll have to see how the accounts actually come out when we run all the numbers.

Now, it's really not easy to differentiate between -- I think both of those factors you mentioned on people resuming work, loan collection efficiency, effectiveness, I think all these help for us. So I don't know; from my side, I find it's hard to separate the two, and we definitely have seen improvements in our loan collection rates. Over the last several weeks, it's been steadily improving. We're not quite back down to sort of December, November levels, but we're heading in that direction. So I think these are very encouraging signs.

With regards to loan volume, the demand, I think there's definitely strong demand out there. Our constraints or approach right now is obviously, we have a keen eye on credit risk. If you look at the daily -- the loan applications trend, we see, in fact, they actually kind of mirror our loan volume trends, okay? And actually, from the numbers I've seen, they have come down in the first quarter versus the fourth quarter. In part, it could be because we're marketing, advertising less. And those applications, as you are suggesting, we have been approving a lower percentage of them. Hence, the loan volume decline that we're experiencing in the first quarter.

Our approval rates, I think we are probably down maybe roughly 40% or so from where it used to be, but this is quite a dynamic process. And when we feel that conditions have become more normalized, we will obviously resume healthy loan volume growth again. And that is our -- obviously, that is our aim and goal. Alex, did that help?

Feng Zhang: I'll --

Simon Ho: Okay. Go ahead.

Feng Zhang: Alex, it's Feng. I'll add a few points with regard to what you call as a mark-to-market. And I think previously, there was another question about do we expect a much bigger provisioning in Q1? I think the answer is no, we don't expect that I think for many reasons. Simon talks a lot about our prudent risk management philosophy and approach. And in addition to that, I think the virus, the pandemic outbreak, impact, now we believe it's transitory. As Simon mentioned, the situation in mainland is steadily improving in terms of the pandemic and people are resuming work, normal life resumes.

And our collection operation has resumed 100% fully normal status as of now. And we do expect -- we do see the collection rates, the roll rate, returning to very close -- returning steadily. And in recent days, we have seen those numbers getting to a level that is very, very close to the pre-pandemic level.

And the other reason is, as we mentioned, that we have been very prudent in managing our risk and doing our provisioning. So in a way, prior to -- before the Q1 vintage and also the Q1 vintage, we have been very conservative, prudent in providing the quality assurance fund. So the short answer is due to all these factors, we do not expect a big fluctuation in provisioning for Q1 and all the mark-to-market impact that you are worried about.

Alex Ye: That's very helpful. Thank you.

Operator: Yiran Zhong of Credit Suisse.

Yiran Zhong: Hi, thank you, management for taking my question. I got dropped off earlier, so I'm sorry if this has been addressed, but just a quick follow-up on John's question earlier on your extra color on the recent delinquency impact. I think it was 0.5% to 1 percentage point of increase. But you also mentioned that you've given some sort of lenient treatment to the borrowers impacted by the virus situation, right? So just wondering if that accounted for in your guidance of that delinquency rate impact. Are these borrowers still treated as delinquent in your calculation? That's my question.

Simon Ho: Yes, yes, yes, it's included.

Yiran Zhong: Okay, sure. And also one more question from me. The average loan size of new borrowers in 4Q seems to have increased quite a lot, by my calculation, 20% QoQ. I wonder what's the reason behind that, was there a change in product strategy?

Feng Zhang: Yes, it's a good question and also it's actually very simple. I think the main reason, it's not really due to change of our product strategy or our credit policy we are expanding in this time. It's really because we are tightening our approve rate, and when we're tightening, we cut off the people in the tail end of the credit spectrum. So as a result, the approved people, their quality is actually better. And the line that's showing up for the approved customers compared to previously, as our approved rates was much higher, seems to be a little bit higher. Does that make sense?

Yiran Zhong: Yes, got it. Thank you very much.

Operator: Jacky Zuo of China Renaissance.

Jacky Zuo: Hi, good evening, management. Just two questions from me. First one is you're talking about structural improvements of the borrow quality. So just wondering can you give us some idea what kind of borrower matrix you've been looking at to differentiate better quality borrowers? And what is the typical profile of your current borrowers versus the previous one? That's the first one.

So the second question is the follow-on question on the micro lending license. We're seeing the documents released earlier that this online micro lending license probably will get a higher leverage. I guess that the leverage kind of is the key whether this new license will be useful or not. And we've seen some news recently that some offline micro lending companies have been given favorable treatments; for example, a higher leverage cap during the virus situation. So do you expect the government probably will allow a higher leverage for this new online micro lending license as well? So just want to get an idea from you.

Simon Ho: Thanks, Jacky, great questions. Yes, in terms of the profile of the borrowers and how they've improved and shifted, if you recall, we have 7 credit levels for approved borrowers; levels 1 through 7, 1 being the lowest risk, 7 being the highest risk. And if you look back at our numbers and say about a year ago or so, we were primarily originating in credit levels 4, 5, 6, sort of in that spectrum in the mid-to-higher risk.

Today, the latest numbers I've actually took a look, over 90% of our borrowers are coming from credit levels 1 to 4. In fact, levels 1, 2, 3 account for over 70%, so it's that shift, which in the risk profile that we've made over the past 12 months. And as you can see, the vintage delinquency rates that we disclosed for the third quarter of 2019 starts to show this. Of course, the data that will come out after this will -- the next data points will be a bit clouded up by all the events going on in the market in recent months. I don't know if that helps. I think that's sort of the quantification that we can give you at this point.

In terms of your question on the micro lending license, the leverage ratios, the simple answer is we don't know. We need to have a closer chat with the regulators on this, we hope so, but we don't know.

Jacky Zuo: Yes. Maybe a follow-on question on that. So if we get the license, probably we can switch our lending model to an on-balance sheet principal lender. And do you expect a lower funding cost because of this change? Obviously, this is early discussion of our business model, so just want to get some idea.

Simon Ho: Yes, I think, Jacky, I think that we will probably run in parallel sort of what we call our own micro lending company model versus loan facilitation with third-party institutional funding partners. I think both models will have to run together for some time. I think that's our expectation. Of course, having our own micro lending company and license with more sizable capital, registered capital, will give us more flexibility.

The funding cost, I think it's early days. It could be lower because you are now a fully licensed financial institution with at least RMB1 billion of capital in that company. But also bear in mind that we will also be using our own capital to be lending out at the same time. Today, we don't really do much of that, right? So the blended funding cost from that perspective should be more favorable.

And of course, if some of the channels that are allowed, like tapping into the bond market, etc., I would imagine those would be lower than 9%, so the funding cost for those should be lower than 9%. So I think that we're optimistic about that.

Feng Zhang: Yes, yes, I agree. I would add that because the guidance on the new micro lending company allows -- specifically talks about funding through the ABS market. So I think once we get the micro lending license, that all would be open. And if we have that open, a work through, then I think there's a lot of opportunity to drive down funding costs.

Jacky Zuo: Thanks a lot. That's clear.

Operator: Sanjay Sakhrani of KBW.

Steven Kwok: This is actually Steven Kwok filling in for Sanjay. Thanks for taking my questions. The first one I have was just if management could give an update on the number of institutional funding partners you have. I believe last quarter it was 30; and then what the pipeline looks like?

Simon Ho: Okay. Steven, hi. So we have over 30 at the moment, between 30 to 40. I think given that our loan volumes are down, the constraint really isn't about so much adding on new institutional partners. But we're obviously trying to optimize the funding cost actually more. So we have more than ample funding needs at the funding lines at the moment to support our business. And yes, so I hope that helps to answer your question.

Steven Kwok: It does. And then I guess, just around the guidance in the first quarter of RMB12 billion to RMB13 billion, can you talk about how trends have done since the beginning of the year? What have you seen in January and February and what's the expectations for March?

Simon Ho: I'm sorry, sort of on a monthly -- the trend on a monthly basis?

Steven Kwok: Yes, yes, the loan originations.

Simon Ho: Yes, I think, Steven, we started the year obviously on a relatively conservative tone anyway because coming out of last year, we saw some increase in delinquency levels. I think the trough that we're seeing would probably be -- I would say, February is probably a lower month; March is shaping up probably at a similar run rate, and January was a bit higher. I think these are just margins, yes, small differences; we're not talking about like February is cratered into zero, nothing like that.

Steven Kwok: Okay. Got it.

Simon Ho: Relatively just want to evenly distributed.

Steven Kwok: Okay. That's helpful just in terms of then sizing what it could be if we would take those trends and extrapolating it to the remainder of the year, and how things are. That's what the line of questioning was around.

Simon Ho: Okay.

Steven Kwok: So those are my questions.

Operator: Anna Brown of Seahawk.

Anna Brown: Thank you, Simon, congratulations for the solid quarter. I just have one question. So market has the rumor that you're considering about privatization. Although this is logically against the action that you did the share repurchase, and you did the dividend. Can Mr. Zhang or Mr. Gu reaffirm the market that you're agnostic in privatization?

Simon Ho: Well, thank you very much, Anna. I think in this day and age, we have to be very, very careful about fake news. Who knows what is new and what is not? I think on this particular issue, let me just make a few comments. I think we are committed to delivering shareholder value, and we continuously review all of our strategic options to deliver and maximize shareholder value. So we are all aligned in this process.

And I can report to you that we have not received any proposal to take the Company private, nor are there any transaction that is being discussed. And of course, as part of the Company, we will have to assess any proposals that we do receive on the basis of maximizing shareholder value.

Anna Brown: Thank you, Simon.

Operator: Lucy Li of Goldman Sachs.

Lucy Li: Thank you management for taking the question. Just two small questions to a follow-up. The first one is I noticed a higher proportion of on-balance sheet loans this quarter. I'm just wondering on the on and versus off-balance sheet position, is there a significant difference in profitability enhance the position? Or is it a matter of the funding partner mix change?

And secondly, on the loan rescheduling for the borrowers that are impacted by the virus situation, I'm wondering how many clients, or the proportion, are rescheduled or impacted? And in normal quarters, what's the level then? Do we book those loans as new loans? So just those two questions.

Simon Ho: Yes, Lucy, regarding on-balance sheet versus off-balance sheet, for us, it's not really such an active decision as such because our on-balance sheet -- the loans that you see on our balance sheet and loan receivables are primarily from trusts. So unlike other peers that will use a very large part of their own capital to lend, actually in our case, it's primarily through trusts, so it's one form of our institutional funding partnership. Whereas, the off-balance sheet loans would primarily be funded by commercial banks and consumer finance companies. I think those are the main ones, okay?

So in the fourth quarter, banks and consumer finance companies accounted for roughly about 80% of our loan origination volume, and trusts were the remaining 20%. I think we are keeping trusts at around sort of the 20% to maybe 25%-ish level. To us, we've been over the last year, we've been shifting towards commercial banks because they naturally have lower funding costs than trusts, so they have larger balance sheets, right? And we could cooperate in a wide spectrum of areas, not just on funding. So that's been the trend really. So it isn't really an active way of saying I want to do more on versus off.

Your second question is on the rescheduled sort of loans and I believe the percentage of borrowers from Hubei Province is only a few percent. So actually, this whole impact to us has been, I think, is small; I don't think it's a meaningful impact at all to our income statement. And of course, you can't assume that all several percent of those borrowers defaulted; that is not a reasonable assumption at all. So that's the reality.

Feng Zhang: Sorry. I just add -- I guess your question is more about the relief program.

Lucy Lee: Yes.

Feng Zhang: So the relief program, the participant's volume is very low; on a daily basis, it's low, a few hundred customers will qualify and we do not do rolling-over loans. Essentially, we do not give them a new loan, kind of like no mask. The loss we essentially waive the collection fee or just delay the payments. So I think that's probably your question.

So I don't think these kinds of things that we hide the delinquency impact; we push out the delinquency impact because we do not give them a new loan to pay back the old loan, and make the old loan look better. That's not the case. So I think the volume is very small and we do not do roll-over loans. Does that answer your question, Lucy?

Lucy Lee: Yes, that was my question actually.

Operator: (Operator Instructions). John Cai of Morgan Stanley.

John Cai: Hi. Thank you for taking my question, again. It's just to ask the management assessment on the current sector risk level. It's quite a cycle, so has it already peaked, or what side should we be looking at to assess the cycle? I just want to get some help from the expert in the industry. And then related to that is probably do we have expected growth assumption in terms of volume, so maybe second quarter or third quarter? Thank you very much.

Feng Zhang: Hey, John. Yes, that's good; these are great questions. And we view our business as a cyclical business and we are currently in a cycle, and I think there are a couple of things together here. Now in terms of the pandemic impact, as I mentioned earlier, we have seen low rate, delinquency rate, and early delinquency rate, and more importantly, a collection rate returning to pre-pandemic level. So that is very encouraging.

Now we will need to wait and see how the pandemic situation develops. As of now, you probably also heard from the news, I think, the situation in Mainland China has really been stabilizing and recovering, but kind of like outside of China now is a question here. And there are people flying back, so we will wait and see if the pandemic situation will continue to improve. And we are very optimistic, given the capability of the government and what we have seen the improving trend over the last 2 months for that, so that's the good news.

Now I think the flip side is given the pandemic developing situation worldwide, and what happened in the financial market worldwide, I think there is a real concern that there could be some kind of economic decline worldwide. And then they have an impact on China's economy over the mid-to-long term as well. Now we do think that the Chinese economy has its own protections, it is less connected. I think, as we saw what happened in 2008 and 2009, China economy actually sustained it pretty well, while a lot of other economies turned into recession. So but there will be impact if the rest of the world turns into recession.

So I think we are a bit cautious to see the mid-to-long-term economic impact and that in turn, will impact credit as well. So I hope that gives you more color on our view about whether we are at the bottom of the cycle. I think, in short, we think we are very optimistic that the pandemic impact could be over soon. But we're a little bit concerned about the economic outlook worldwide and its impact to China's economy and the credit.

So given that, I think it is very difficult to give a prediction, a precise prediction, for what the volume growth rates for Q2, Q3, the rest of the year will be. I think we'll need to take a very cautious approach, prudent approach, and observe the data, observe, let things play out a little bit and stay prudent and opportunistic.

Simon, if you have anything you want to add?

Simon Ho: No, I think that makes much sense. Thank you.

John Cai: Thank you, very helpful.

Operator: At this time, ladies and gentlemen, there are no further questions. So I would 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's Group Investor Relations Team. Have a nice day. Thank you. Bye-bye.

Operator: The conference has now concluded, and we thank you for attending the presentation. And you may now disconnect your lines.