[FINV] - FinVolution Group
Q4 and Full Year 2021 Earnings Conference Call
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Officers
Feng Zhang, CEO
Jiayuan Xu, SVP, Finance
Jimmy Tan, Head, IR

Analysts
Yada Li, CICC
Frank Zheng, Credit Suisse
Hanyang Wang, 86Research
Alex Ye, UBS
Thomas Chong, Jefferies

Presentation

Jimmy Tan: Hello, everyone, and welcome to our fourth quarter and full year 2021 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, 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. We're happy to speak with you today following the completion of another challenging year on a strong note.

2021 was a complicated year given the fluctuating macro environment, but our strategic transition towards better-quality borrowers positions us for success amid rapidly-evolving market dynamics. By leveraging our in-house developed technologies and industry-leading digital capabilities throughout our business process, we continued to deliver consistent and robust growth over the past several quarters, with stellar performance across multiple operating metrics. We achieved another set of record-breaking results in the fourth quarter to cap off the year.

As we effectively and vigorously executed our strategy, our fast-expanding global borrower base supported our strong transaction volume growth over the past several quarters. For 2021, our total transaction volume reached an all-time high at RMB137 billion with a year-over-year increase of 111%, exceeding the upper end of our transaction volume guidance range of between RMB130 billion and RMB135 billion.

We attribute our success in acquiring new borrowers primarily to our Real Time Application proactive monitoring technology, which gives us advanced insight into customers' borrowing habits. Generally speaking, RTA enables us to strategically make efficient and appropriate adjustments, increasing our target screening efficiency by 20% and operational efficiency by 25%.

Furthermore, during the quarter, we surpassed the benchmark of 1 million newly-acquired borrowers across the globe for the fourth consecutive quarter.

We are also pleased to share that as of December 2021, we have successfully registered 189 software copyrights and filed 150 patents in fintech-related areas. Building on our core technology capabilities and execution strengths, we are confident that we will keep our growth momentum rolling into 2022.

Now let me share our major achievements for the fourth quarter. Total transaction volume continued on its solid growth trajectory in the quarter, reaching RMB39 billion, up 81% year-over-year and 2.4% sequentially. As of December 31, 2021, our total outstanding loan balance increased to RMB50 billion, representing an increase of 88% year-over-year and 12% sequentially. These results are a strong testament to our rock-solid technology foundation, which underpins our core competencies in the challenging macro environment.

As we continued to acquire better-quality borrowers, our percentage of loans facilitated at or below IRR 24% increased to 78% in the fourth quarter from 59% in the previous quarter. Also, we further reduced our average borrowing cost by 1% quarter-over-quarter to 24.3%, reflecting our relentless efforts to pursue financial inclusion and align with regulatory directives.

As we progressively shift to better quality borrowers, we continue to innovate our fraud detection and risk assessment models through enhancements in our Artificial Neural Networks which can be used to effectively predict future possible trends based on past data. Coupled with our prudent approach towards risk management and our advanced credit risk assessment model, our credit risk performance has remained stable. Our 90-day plus delinquency rate remained low at 1.26% compared with 1.56% in the same period of 2020 and the vintage delinquency rate for the fourth quarter is expected to be around 2.3%.

While achieving strong growth in key operational metrics, we also progressively improved earnings quality and our overall funding structure. As we continue to augment and optimize our mix of funding partners, funding sources on our platform become increasingly diversified while remaining stable and ample. Historically, liquidity from financial institutions in the fourth calendar quarter is weak and typically imposes funding constraints.

However, during the fourth quarter of 2021, we achieved quarter-over-quarter transaction volume growth, validating the strong relationships and firm foundation of trust we have established with our institutional funding partners. We have cumulatively cooperated with over 60 financial institutions in different regions and have a robust pipeline in place.

Furthermore, we continue to fortify our relationships with institutional partners, reflected by higher transaction volume in our capital-light model, which contributed 18% of total transaction volume in the quarter.

In addition to our consumer finance business, our operations aimed at empowering small business owners also maintained their steady growth momentum. We continued to strategically expand our offline sales team, which now boasts over 1,000 employees and is well-placed to further complement our customer acquisition strategy.

During the quarter, the number of small business owners we served swelled to 507,000, representing an increase of 161% from the same period last year, while the segment's transaction volume increased to RMB8.6 billion, contributing 22% of total transaction volume for the period. In 2021, we empowered 826,000 small business owners across multiple sectors such as retail, wholesale, food, beverages and small manufacturers and facilitated RMB27 billion of small business loans, representing 20% of total transaction volume.

Serving small-business financing needs is strongly aligned with the government's objective to promote quality financing access for SMEs, especially in the aftermath of the global pandemic. Our corporate strategy for supporting the backbone of China's economy and injecting new vitality into small businesses is another testament to FinVolution's commitment as a responsible corporate citizen.

Moving on to our international expansion. Despite the resurgence of Covid-19 in Southeast Asia, we achieved transaction volume of RMB3.7 billion in international markets in 2021, representing an increase of 270% year-over-year.

International new borrowers in 2021 accounted for 32% of our total new borrowers, further demonstrating that our suite of technologies spanning from customer acquisition to loan collection can be seamlessly duplicated into new geographic markets. Additionally, we continued to deepen our partnership with Bank Jago and actively explore potential partnerships with other players across different countries.

It is worth noting that as we strategically shift towards better-quality borrowers, we have significantly increased the proportion of installment loans in our international business operations. Meanwhile, we remain focused on improving our risk metrics and rolling out more innovative products and services to enhance our offering mix.

Also, we redoubled our efforts to develop additional cooperations with renowned partners, further broadening our presence in the region. We have great confidence that we will emerge as one of the leading players in the region.

In summary, our stellar performance in 2021 laid a solid foundation for us to drive sustainable, quality growth in the long run. As we enter into 2022, we remain dedicated to refining our risk assessment and management framework with prudent principles and advanced technologies, optimizing our product mix toward ongoing risk metrics improvement, and acquiring better-quality customers.

Our outstanding risk management system and strong overall execution will enable us to further strengthen our leadership position in the industry. We believe that we are well positioned to capitalize on the tremendous market opportunities ahead of us for years to come and remain committed to returning greater value to our customers, shareholders and all stakeholders with better business scale and quality.

Last but not least, I'd like to provide an update on our ESG performance, which we believe drives growth and leads to long-term value creation. We are proud to have received a "low risk," ESG rating from Sustainalytics, a leading independent global provider in ESG research, ratings and data. Sustainalytics assessed our strong performance across a broad range of ESG metrics and rated us as low risk, commending our relentless commitment to the robust management of all material ESG risks and opportunities across our businesses.

We are firmly convinced that our long-term strategic plan, including financial as well as environmental, social and governance goals, will guide FinVolution to new heights. As we encourage all of our people to take part in this critical plan, our efforts are organized around our mission of leveraging innovative tech to make financial services better.

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

Jiayuan Xu: Thank you, Feng, and hello, everyone. Welcome to our fourth quarter and full year 2021 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 delighted to report that we closed 2021 on a strong note along with another quarter of record profitability. Our accomplishments for 2021 were highlighted by transaction volume growth in 7 consecutive quarters and diversification of funding sources, as well as a substantial increase of 4.4 million new global borrowers, reflecting our capabilities to continually gain market share both domestically and internationally.

Driven by our ongoing efforts to optimize our operations, robust execution of our overall strategy and skillful deployment of our technological capabilities across businesses, our net revenues for the fourth quarter rose to RMB2.4 billion, up 32% year-over-year.

We also delivered a healthy non-GAAP operating profit of RMB560 million and maintained a solid balance sheet with RMB10.7 billion in total shareholders' equity.

During this quarter, our average borrowing cost reached 24.3%, compared with 25.3% in the third quarter of 2021 and 26.4% a year ago. We are certain that we have the capability and we are on track to facilitate all our loans to be at or below 24%.

Despite the rising contribution from our capital-light model and the regulatory cap on borrowing rates, we have successfully maintained the overall take rate at around 4%, compared with 4.2% in Q3. Given our partners' support and our ongoing efforts to enhance operational efficiency, we are confident that the borrowing cap's impact on our financials will be minimal.

While our capital-light model proportion has grown throughout the year from 2.3% in the first quarter to 18% in the fourth quarter, our leverage ratio, which is defined as risk-bearing loan balance divided by shareholders' equity, remains stable at 4x.

We generated cash flow of RMB1.2 billion from operations in Q4, up 12% from the same period last year.

Notably, we further increased our unrestricted cash and short-term liquidity position to RMB 5.6 billion in the quarter compared with RMB 5.1 billion in Q3 and RMB 4.6 billion in the same period last year, a testament to the robustness of our balance sheet.

During the fourth quarter, we continued to target higher-quality borrowers with attractive borrowing rates as part of ongoing refinements to our customer acquisition strategy. 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.

More excitingly, we were able to continue to return value to our shareholders through dividend payouts and share buybacks. Between December 2021 and March 10, 2022, we deployed about USD 8 million to buy back our shares in the public market. As of March 10, 2022, we have cumulatively deployed USD 139 million for our buyback programs.

Our Board has also declared a dividend for our shareholders of USD 0.205 per ADS with a payout ratio around 15% of net income after tax for fiscal year 2021. This is our fourth consecutive annual dividend declaration, which reaffirms our confidence in our core capabilities, business growth, and long-term market potential.

The Company’s average dividend payout ratio historical trend for fiscal year 2018 to 2021 was about 15% of the Company’s net income after tax in the same period. Between 2018 and 2021, we cumulatively deployed around USD 202 million for dividend distributions.

Going forward, the Company’s board of directors has approved an annual cash dividend policy, under which the Company will declare and distribute a recurring cash dividend at an amount of no less than 10% of the Company’s net income after tax in the previous fiscal year.

Since we began our share buyback and dividend initiatives in 2018, we have cumulatively returned around USD 341 million to our shareholders.

Before I conclude my remarks, let me give you some color on our business outlook for 2022. Despite recurring Covid-19 outbreaks and the challenging macro environment, our business continues to grow and gather momentum as we focus our efforts on strengthening our international initiatives, increasing facilitation for small business owners, and reinforcing our successful transition to higher-quality borrowers.

As a result, we now expect our 2022 transaction volume to be in the range of RMB 175 billion to RMB 180 billion, representing an increase of 27% to 31% year-over-year. We are thrilled to top off 2021 with multiple accomplishments and look forward to continuing success in 2022.

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

Questions and Answers

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

Yada Li: (Speaking foreign language). Okay. Now I'll do the translation. The first one is regarding our international business. Could you please elaborate more about our future operation metrics, and how much international business will contribute to our revenue and the transaction volume at the end of 2022?

And the second one is compared with what we've been doing before, when the pricing is going downward, how are we shifting our customer acquisition strategy?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: (Translated). All right. Let me translate for my CFO. Okay. First of all, while we have made tremendous progress for our international business in 2021, our transaction volume for the year reached RMB 3.7 billion, an increase of 270% year-over-year. And looking forward, we are confident to increase our international loan balance.

And for 2021, we acquired 1.4 million new international borrowers, representing a year-over-year increase of 122%. Our local partners have also recognized our capabilities, and for example, we have cooperated with local players such as Bank Jago. In the stage one of our cooperation, we have reached an agreement of USD 7 million as our credit facility.

Okay. In 2021, we have achieved strong loan volume growth for our international business. At the same time, we are also thinking how we should move the business going forward. And based on our China experience of transitioning to better-quality borrowers, we would think that our priority for the international business would be on a transition to better-quality borrowers as well, in order to scale our international business to greater heights on a higher-strategic level.

Okay. Our focus for international business, right, would be to shift to higher-quality borrowers and also increase the proportion of loans facilitated for them. For example, in the Q4 of 2020, this proportion was about 30%, and we expect it to increase to 70% by the end of 2022. And some of the traits of these higher-quality borrowers would be a higher ticket size and longer loan tenure.

And for the outstanding loan balance in the fourth quarter, it was around USD 50 million, which was around RMB 330 million, and we are confident to increase it by 100% by the end of 2022.

Okay. Our numbers of new borrowers has exceeded 1 million in 4 consecutive quarters. Our strategy based on the current results, right, our customer acquisition strategy has proved to be effective and efficient. And we have more than 20 different customer acquisition channels, namely TikTok, Tencent, etc. And we can see that the information feeds is one of the more effective channels for us. And going forward, we are confident to acquire better-quality customers from this information feed channel.

Okay. At the same time of acquiring our customers online, we are also strengthening our offline direct sales team. For example, we have increased our employees for offline direct sales team from 700 to 1,000 employees in the fourth quarter. And these employees cover about 20 different cities, and we acquired about 10% of our customers from these offline channels.

We have been constantly upgrading our customer acquisition models and principles regarding these acquisition strategies. For example, there has been feedback; we are consolidating feedback from these information feed channels. Also, we are adopting a segment building strategy for different customer categories. This segment building strategy will help us to increase our customer acquisition efficiency and further refine our customer acquisition cost. This is something that we will be doing constantly for the mid-to-long term.

Jiayuan Xu: (Speaking foreign language).

Operator: Frank Zheng with Credit Suisse.

Frank Zheng: (Speaking foreign language). This is Frank from Credit Suisse. I have two questions. The first one is regarding the loan volume guidance for 2022. The guidance indicates robust growth of around 30% year-over-year. Could management share a bit more color on what are the drivers behind this growth in view of the Covid resurgence and macro slowdown, etc.?

And the second question is could management provide some color on potential new license acquisition, for example, national micro-lending license? Any kind of preparation work down on that front?

Jiayuan Xu: (Speaking foreign language).

(Translated). The macro environment in China is complicated, but if you actually observe, the impact on our operation, it's minimal. The more relevant factors affecting our operations would be Covid, which affects our loan volume and also our risk metrics. But these challenges remain manageable. And from the country's perspective, the GDP growth in Q4 was only 4%, while the overall economy is under pressure and with both the central and local government encourage consumption to drive the economy. And this provides tremendous opportunities for us in the future.

Okay. Let me translate. The second point that we can view is from a structural perspective. For example, the restrictions on the internet giant in the consumer credit market is much more obvious. In the future, we think the structure is likely to be more diversified and eventually reaching a more balanced stage, providing more opportunities for midsized platforms.

And the third point can be from the regulator perspective. The fintech industry has been under regulatory focus since 2018. And during the past 5 years, regulators have issued multiple documents to regulate the industry and ensure compliance. These measures played a positive role in consumer protection and increased the cost of compliance of some enterprises.

As the industry becomes more regulated, weaker companies will be eliminated. And the remaining companies, especially for those with a competitive edge, will experience better development in the future.

And lastly, the monetary policy generally lags, and there is also a potential of interest rate increase amidst and coupled with a stable credit environment, it is unlikely to have a huge fluctuation. And hence, we are confident of the potential of the consumer finance market in the future, which gives us the confidence to give us a loan origination guidance of between 27% to 31%.

I believe you guys know that we already have a micro-lending license in Anhui. First of all, we can choose to increase the registered capital to 5 billion, like what many of our peers are doing. And also, we can look to explore and acquire other micro-lending license in other parts of the country in order to have more flexibility when conducting our business operations. Regardless of the routes that are available to us, right, we are confident to achieve a license, a nationwide micro-lending license for our operations.

Frank Zheng: (Speaking foreign language).

Operator: Hanyang Wang with 86Research.

Hanyang Wang: (Speaking foreign language). So my first question is regarding our guidance. So can management help us break down the proportion of the loan position amount that comes from the new users, existing and return users? So what's our borrower retention rate in China and international markets in Q4?

Second question is given the current market condition, will we continue to pay out dividends? And will we accelerate current share repurchase? Any initiative of new share buyback plan? So any plan for the Hong Kong primary listing?

Jiayuan Xu: (Speaking foreign language).

(Translated). Okay. Let me translate. As you know, Hanyang, our business has been in a very stable state with about 80% of our customers are repeat borrowers and 20% are new borrowers. This is likely going to be the trend with fluctuation adjustment needed whenever we need to adjust our operations. For example, we will tend to acquire more new customers when the market is good; and we will tend to focus more on repeat borrowers when the market is facing some challenges. And on a stickiness level, we believe it will be about the same as before going forward.

Okay. Let me do the translation, Hanyang. We have been consistently returning value to our shareholders since 2018. This is our fourth consecutive annual dividend, and we have cumulatively returned about USD 200 million to our shareholders. And in terms of buyback, since 2018 until now, we have cumulatively buy back or deployed about USD 140 million to repurchase our stock. And for the period of December to March 10, we have deployed about USD 8 million to repurchase our stock.

In total, share repurchase and our dividend policy, we have cumulatively deployed around 341 million. And regarding our repurchase plan, we still have an existing repurchase plan until the end of the year. And currently, there is still about USD 30 million of unutilized amount.

Hanyang Wang: (Speaking foreign language).

Operator: Alex Ye with UBS.

Alex Ye: (Speaking foreign language). So I will translate for myself. First question is about your interest rate and the take rate outlook. So what is the average interest rate pricing for Q4? And how far are we versus our target pricing? And how much downside do we still expect on our revenue take rate?

The second question is on asset quality. We noticed there is a slight uptick on your asset quality indicated in Q4. So I'm wondering what are the underlying reasons behind? And could you also give us some color in terms of your latest day 1 delinquency ratio in Q1? And also, when do you expect your asset quality to pick up and improve going forward?

Jiayuan Xu: (Speaking foreign language).

(Translated). Hi, Alex, let me do the translation. In the fourth quarter, our average borrowing rate was around 24.3%. And by the way, 80% of our loans are facilitated at or below 24%. And plus, you can see that we are actually very confident to achieve the target of 24%.

However, I would like to highlight that we will maintain a certain degree of flexibility going forward. And plus, our average pricing for the remaining of the year will be in the range of 23% to 24% going forward.

Alex, let me do the translation for you. The take rate is impacted by several factors such as pricing, loan tenure, risk and funding costs. Okay. For example, our loan tenure in the fourth quarter has increased from 8.2 months in the third quarter to 8.9 months in the fourth quarter, and this has resulted in a positive take rate. And our vintage risk delinquency is expected to be around 2.3%.

And funding costs in the first half of 2022, we expect that larger liquidity with room for improving our funding costs. And let's assume that if our average pricing dropped to 23%, we are able to maintain our take rate at 3.6%, with room for further improvement when funding cost and risk metrics improve.

Alex, let me do the translation for you now. In our previous quarter earnings calls, we have mentioned that we have observed there is some uptick in our risk delinquencies. And our risk department has also made some timely adjustments to our risk assessment policies. For example, we have seen the day 1 delinquency metrics in October was around 5.6%, and now it is at 5.3%. This proves that our risk model is actually working.

And also for our day 1 to 30 loan collection rate, we have maintained it at above 90%. And going forward, we are confident to maintain our vintage delinquency at around 2.3%.

Alex Ye: Thank you. (Speaking foreign language).

Operator: Thomas Chong with Jefferies.

Thomas Chong: (Speaking foreign language). I have a question regarding the overseas business. Given that Buy-Now-Pay-Later is very popular these days, I just want to get a sense about our strategies in coming years, and how we should think about the competitive landscape because we are seeing overseas players are also aggressively investing in these areas. And which countries are we focusing or allocating more resources on?

And my second question is about the full year guidance. Can management break out about the growth rate in domestic market and the growth rate in overseas?

Feng Zhang: Okay. This is Feng. I'll take the first question and leave the second for Alexis. Yes, I think for the overseas market, the BNPL business, I think overall, we are exploring, but we take a cautious view. So we do see that it is a pretty hot area and trend in some of the markets. The valuation in the market is also pretty high. But on the other side, we also feel the competition and also the valuation in some of the markets is a little bit overheated. So in that regard, we are a little bit cautious.

So we are exploring some opportunities in some markets, including Indonesia and Vietnam. We have struck some partnerships with some local partners, but we have been taking one step at a time. And at this point, we do not have a very high or a very concrete target for this particular business. I think we are kind of like just testing the water and staying opportunistic on this.

And with regard to which country, I think the biggest market that we see that has the best balance for market growth, regulatory environment and market readiness, as well as size, is Indonesia, which is also where we have the biggest business size and we are most optimistic about.

We are also pretty optimistic about Philippines and Vietnam as well, in which countries we have a presence already. At the same time, we are also exploring opportunities in other Southeast Asian countries as well as a few South American countries.

Jiayuan Xu: (Speaking foreign language).

(Translated). Our loan volume for 2021 in the international market was around 3.7 billion. If you compare to our domestic market, this percentage is actually not very high. And also our priority for this year 2022 for our international markets would be the transition to better-quality borrowers. We have also mentioned that our outstanding loan balance for our international market was around USD 50 million in 2021; and we expect it to grow by 100% this year by the end of 2022.

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

Jimmy Tan: Thank you once again for joining us today. If you have further questions, please feel free to contact FinVolution Investor Relations team. Thank you, everyone.