

[FINV] - FinVolution Group
Q3 2023 Earnings Conference Call
November 20, 2023, 7:30PM ET.

Executives

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

Analysts

Alex Ye, UBS
Yada Li, CICC
Cindy Wang, China Renaissance

Presentation

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

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

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

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

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

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and

uncertainties. As such, the Company's results may be materially different from the views expressed today.

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

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

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

Tiezheng Li: Thanks, Jimmy. Hello, everyone, and thank you for joining our earnings call. This is Tiezheng Li, CEO of FinVolution Group. We are happy to speak with you today. During the third quarter, we steadily executed our Local Focus, Global Outlook strategy while strengthening our efforts to build our business throughout the Pan-Asian region. Cumulatively, we are proud to have served over 29 million borrowers in China, Indonesia, and the Philippines.

As we continue to expand our presence in these countries, we have tapped more deeply into our regional resources and are now successfully deploying them across the various markets in which we operate. For example, one of our regional funding partners can now support our loan facilitation operations across different countries, greatly improving our capability to serve more borrowers in our markets. We plan to leverage and replicate this success as we expand into additional countries while strengthening our presence in existing markets.

China's post-Covid economic recovery continued to progress gradually during the third quarter, with macro data reflecting uneven improvements in different areas. For instance, in September, the consumer confidence index picked up slightly to 87 points, but is still hovering at relatively low levels. Also, according to data from the National Statistical Bureau, unemployment rate officially peaked at 5.3% in July before trending down to 5% in September.

Although there has been some moderate recovery in the consumption market, the bulk of the recovery has been in children's education, sports, medical, healthcare, domestic travel and other offline activities. Purchase intentions for big-ticket items such as property, cars and luxury goods remain relatively weak.

Meanwhile, the overall macro-environment in Indonesia, our largest overseas market, remained robust as the region is in a faster stage of development. For instance, Indonesia's consumer confidence index from August through October remained high at above 120 points, a positive indicator for increasing consumer spending. Its unemployment rate in September also declined to 5.3% compared with 5.9% in the same period last year, its lowest level since the first quarter of 2020.

Thus far, our tactical approach of maintaining prudent, progressive growth in the China market, while pursuing rapid growth in the international markets, has proven very effective under the current uneven macro conditions we have observed.

While waiting for China's economy to recover at a faster rate, we have been constantly investing in R&D to further streamline our processes, enhance customer experience and achieve operational efficiency improvements. Since 2018, we have deployed around RMB2.4 billion to develop cutting-edge technologies and implement them throughout our business operations. In particular, we made notable progress with Blu, B-l-u, our AI-powered chatbot, which now supports operations in six different countries with five language options: Chinese, English, Tagalog, Bahasa and Spanish.

Furthermore, by integrating Blu with our human loan collection personnel for Day 1 reminder calls, we have achieved cost savings of up to 80% while maintaining our per-10,000-calls efficiency levels. Blu's effectiveness once again showcases our R&D prowess as well as our ability to improve operational efficiency with pragmatic yet innovative tech that can be seamlessly applied in our operations across different markets.

Speaking of AI, we continued to leverage AIGC to boost social media engagement for our overseas business, increasing our campaigns' audience targeting accuracy and achieving greater visibility on leading social media platforms. Thanks to our engaging, AIGC-driven advertisements and inventive use of technology, our followers on Facebook surpassed the 1 million milestone, while our followers on Tik-Tok grew to around 740,000.

As always, we continued to promote financial inclusion, a mission that reflects our commitment to social responsibility and supports our business goals. Our average borrowing rates in China maintain stable sequentially, making our products and services accessible to even more borrowers.

I'm pleased to report that, despite all the macro uncertainties, FinVolution Group's total transaction volume for the third quarter grew to RMB51 billion, while our outstanding loan balance grew to RMB66 billion, representing year-over-year increases of 13% and 9%, respectively. These results clearly demonstrate that our Local Focus, Global Outlook strategy is not only viable, but it is also scalable, which is a critical factor for our future growth.

On a related note, I would like to share a brief update on our recent ESG initiatives. Our dedication to sustainability and giving back to society remains at the heart of our corporate values and forms a core part of our identity. Over the last couple of years, the Company has made several charitable trips to the Sichuan Daliang mountains area. This year, we donated 350 renewable energy streetlamps to improve infrastructure for the local villagers.

We also organized a unique schooling event for children at FinVolution Kindergarten, another of our long-standing community projects in the area. Going forward, we will

continue to align our ESG and business goals to maximize our positive societal impact while creating value for all of our stakeholders.

To summarize, the third quarter of 2023 was not without challenges, but our firm and focused execution of our Local Focus, Global Outlook strategy alongside tech innovation empowered our steady progress and strengthened our foundation, supporting long-term, sustainable growth. We will continue to embrace inclusion, accessibility and technology as we seek to serve borrowers throughout the Pan-Asian region with better financial services.

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

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

As Li mentioned, the domestic macro recovery has been gradual and reflects uneven improvements in certain areas. For instance, the official manufacturing purchasing managers' index, PMI, from August through October fluctuated between 49.7, 50.2 and 49.5 points according to data released by the National Bureau of Statistics on October 31, 2023.

Meanwhile, total social financing data in October increased to RMB1.85 trillion, up 9% from the same period last year. Total retail consumption in October increased to RMB4.3 trillion, up 7.6% compared with the same period last year.

Our stable and better-quality borrower base empowered us to maintain steadfast and resilient operational metrics domestically in the third quarter despite the uneven macro environment. Cumulatively, we have served around 25 million borrowers in China, with the number of unique borrowers remaining stable at around 2.3 million.

Additionally, our domestic transaction volume reached RMB49 billion, up 11% year-over-year and 8% sequentially.

Meanwhile, our outstanding loan balance reached RMB64.6 billion as of September 30, 2023, up 8% year-over-year and 3% sequentially. All these achievements demonstrate our solid standing in the China market and also highlight our unwavering commitment to serving our customers.

We continue to employ prudent risk management tactics and effective fraud detection technologies, resulting in only minor fluctuations in our risk levels during the quarter. Day 1 delinquency rate in September was 5.7%, while vintage delinquency rate is expected to be around 2.4% to 2.5% for the quarter.

Going forward, we will continue to monitor the credit risk performance closely and make timely adjustments when necessary.

Finally, bolstered by the AI-powered chatbots Li mentioned earlier, our loan collection team kept our loan collection recovery rate at around 89%.

Furthermore, we continued to add new funding partners, bringing our cumulative number to 88 financial institutions with a strong pipeline of potential future partners in place. These operational achievements enabled us to maintain a healthy take rate of around 3.1% during the third quarter.

Recognizing the critical role that small businesses play in our economy, we also upheld our commitment to small business owners with unwavering support during this bumpy recovery period. During the third quarter, we served around 448,000 small business owners and facilitated RMB12.3 billion of loans for them, representing an increase of 9% compared with the same period last year and 7% sequentially.

Now let me move on to our international expansion efforts. As Li shared, Indonesia, our largest overseas market, enjoyed ongoing growth in its macro-economy during the third quarter. Sales of motorcycles, the most popular model of transportation in Indonesia, have also accelerated.

During the first 9 months of 2023, motorbike sales were up 31% compared with the same period of 2022, reaching around 4.7 million units, a positive indication of growing consumer spending. Given these promising trends and data points, we anticipate that Indonesia's domestic consumption will remain robust.

We were pleased to record another quarter of significant improvement in our overseas markets across multiple operational and financial metrics. Cumulatively, we have served over 4 million borrowers in Indonesia and the Philippines, and continue to rapidly attract new borrowers in these regions. The number of unique borrowers served during the quarter reached another new high at 928,000, up 27% year-over-year and 18% sequentially.

Furthermore, we continued to increase the proportion of institutional funding in Indonesia, as we strengthened our local presence and broadened our local network. For the third quarter, the percentage of loans facilitated from local financial institutions reached 74% compared with 55% for the same period last year. As a result, international transaction volume surged by 99% year-over-year and 21% sequentially to RMB2.2 billion for the third quarter.

We also set new records in outstanding loan balance at RMB1.3 billion, up 102% year-over-year and 16% sequentially, as well as revenue contribution of RMB585 million, up 67% year-over-year and representing around 18% of total revenue.

Leveraging our experience of shifting to better-quality borrowers in China, we also take a proactive approach to acquiring better-quality borrowers in the Indonesian market. Apart from the online lending business, we are also pilot-testing an offline business model with different consumption scenarios to provide more holistic services for our borrowers. In addition, we are also actively exploring the acquisition of additional licenses to better support our local operations.

Driven by our dedication to R&D innovation, as well as our successful execution of our Local Focus, Global Outlook strategy, net revenues for the third quarter grew to RMB3.2 billion, up 8% year-over-year and a sequential increase of 4%.

Sales and marketing expenses increased by 13% sequentially to RMB530 million as we increased our efforts to acquire better-quality borrowers through diversified channels. Number of new borrowers in the China market increased by 7% year-over-year and 12% sequentially to 406,000. Notably, the number of new borrowers in the international markets increased by 27% year-over-year and 36% sequentially to 423,000. In total, we acquired around 829,000 new borrowers during the third quarter, up 16% year-over-year and 23% sequentially.

Net income for the third quarter was RMB575 million, a sequential decrease of 2.6%.

Our leverage ratio, which is defined as risk-bearing loans divided by shareholders' equity, remained stable at 4.1x, indicating future growth potential as the overall macro-economy recovers to a healthier state.

Our strong balance sheet and liquidity position continue to enhance shareholder confidence, while providing us optimal flexibility to execute our strategy. In particular, our cash position remains robust with over RMB8.5 billion of cash and short-term liquidity as of the end of September 2023, representing an increase of 58% year-over-year and 4% quarter-over-quarter. We believe our current cash position is sufficient to support our business expansion and return value to our shareholders.

Before I conclude, let me briefly update you on our share repurchase program. For the first 9 months of the year, we have deployed around US\$66 million to repurchase our shares in the market. As of September 30, 2023, we have cumulatively returned US\$511 million to our shareholders in the form of share repurchases and dividend distribution, reflecting our strong commitment to enhancing shareholder value.

In summary, our solid results for the third quarter are a testament to the effectiveness of our Local Focus, Global Outlook Strategy, as well as our nimble business model and technological advantages. We have used our time wisely during China's uneven post-Covid recovery, and are poised to be at the forefront of the industry when the recovery accelerates.

Looking ahead, we will remain focused on developing and implementing cutting-edge technology while expanding our healthy customer base, driving growth and creating greater value by making financial services better.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions).
Alex Ye of UBS.

Alex Ye: (Speaking foreign language). So I'm asking about the asset quality outlook for both domestic and international markets. For the China's market, we have seen your Day 1 delinquency pick up a bit in Q3. Could you share more color on the drivers and the outlook for your company in the upcoming 1 to 2 quarters? Also, my question for your Indonesian market, any color on the current trends and outlook?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Alex, this is Jimmy. Let me translate for Alexis.

(Translated). The overall economy in China, such as the PMI and total social financing data are recovering very slowly. And being affected by these factors, our risk metrics have some fluctuations during the third quarter. For example, during the third quarter, Day 1 delinquency was around 5.7% and day 1 to 30 days loan collection rate was around 89%, while 90 days+ delinquency rate was around 1.67%.

And we have done several things, such as increasing the accuracy and updated model of our pre-loan models, such as through the accurate positioning of data mining, data and user behavior analysis. We have enhanced the credit limit accuracy, and we have also accessed the user repayment willingness and probability of default rates more accurately. For post-loan models, we have deployed different tools such as WeChat, Push, IVR and automated loan collection robots to design a combination of the model strategy. Such combination strategies have proven to be effective with a deduction in delinquency rate of up to 0.5% in absolute amount.

And for borrowers, the probability of missing payments due to carelessness, we will also remind them in advance. Leveraging on our collection scores, we segment borrowers into different categories such as repayment behavior, remaining loan balances and changes in debt borrowers' debt levels. And using all these strategies, our collection rate actually increased by around 2.1%.

The economic and consumer confidence recovery are still weak. And thus, risk is an important metric for us. And based on all these strategies that we have deployed, our risk metrics in the fourth quarter are expected to remain at a similar level with the third quarter.

Jiayuan Xu: (Speaking foreign language).

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

(Translated). Indonesia's overall macro economy is much more robust than the China market in terms of employment rate, consumer confidence index, etc. And the risk metrics for our Indonesian market has been stable over the last 1 year. In the third quarter, I believe you have also noticed that we have acquired many new borrowers to maintain rapid growth. And this is the reason why we have more flexibility for our risk metrics.

And we also segment our borrowers into different segments in order to achieve better and more accurate risk profiling. And also, the U.S. interest rate hikes have become moderate, which will be very beneficial for our international business.

Tiezheng Li: (Speaking foreign language).

Jimmy Tan: Hello, Alex, let me do the translation for Li.

(Translated). As Alexis has mentioned earlier, China's economy is recovering slowly and thus, had some fluctuation in the risk metrics, and in Q3, there's sort of a small credit cycle ongoing. And going forward in 2024, we believe the credit performance will be better. And for FinVolution, all along our asset quality has been better than most, which we believe will be very beneficial for us when the economy recovers.

Operator: Yada Li of CICC.

Yada Li: (Speaking foreign language). Then I'll do the translation. This is Yada with CICC. And my first question is regarding the loan demand. During 4Q '23, are we observing kind of recovery of user demand and looking forward to the end of next year? I was wondering how to view the overall growth trend? And what are the circumstances that we may accelerate or slow down the pace of our loan growth?

And the second question is about international business. What will be the volume, revenue and profit contribution from the overseas branches this year and next year? And will Indonesia maintain the high-growth trend? And how to view the profitability and the prospects of the other branches, such as Philippines and Vietnam?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Yada, let me do the -- translate for Alexis.

(Translated). From internal, we think that the demand is fine. As we continue to invest in the acquisition of new borrowers, and we are currently working to reactivate the inactive repeat borrowers, we can share a few data. From internal demand, the daily application rate for repeat borrowers has maintained a steady growth of around 3% MoM. And— from new borrowers, the daily application rate also showed an increase of between 4% to 7% MoM. We think that consumers still recognize our brand and are becoming much more active.

Based on the current weakness in the recovery of the macro environment, we need to balance the growth in demand and also our risk metrics. And we believe we need to have more patience in the overall recovery, as risk is our top-priority metric right now. And we

will balance the risk metrics together with the loan demand of the consumers in order to maintain high-quality growth.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Yes, let me do the translation for the second question.

(Translated). The macro environment of Indonesia and the Philippines is much more robust when compared to our China market, and all these positive macro environment factors actually support our rapid development in these countries. You can see that our transaction volume during the third quarter was about 2.21 billion, while our outstanding loan balance was about 1.29 billion. Our outstanding balance was up 102% year-over-year and transaction volume was up 99% year-over-year. And the number of new borrowers also reached a record high of 423,000, up 27% year-over-year and 36% quarter-over-quarter.

Please also note that this is the first time where the number of international new borrowers exceeds the number of new borrowers in China. We still think that there is a huge market potential.

In the Indonesian market, there are over 100 P2P players, and we are currently ranked #3 in terms of outstanding loan balance with a market share of around 6%.

Let me briefly touch on the Philippines market. We believe the Philippines has very strong growth potential and the transaction volume for this year is expected to grow around 3x.

And Indonesia, I forgot to mention just now that Indonesia household leverage ratio, the household leverage ratio of Indonesia is expected to reach 16.2% in 2022, which is significantly lower than that of developed countries and regions such as the United States (74.8%) and the European Union (57.5%). It is also much lower than that of Thailand (92.4%) and Singapore (48.6%), both of which are in Southeast Asia. There's a lot of potentials.

Regarding profitability, we are in the stage of rapid development with healthy LTV, and our main priority now is growing rapidly and increasing market share. Increasing the market share is a much more important priority for us now. Profit is being affected by many factors, such as our continued investment in customer acquisition and the impact of deferred revenue created by accounting principles. We believe that as long as we are able to maintain healthy development, profits will be a natural result of our operations.

Operator: (Operator Instructions). Cindy Wang of China Renaissance.

Cindy Wang: (Speaking foreign language). I have two questions. First question is related to Indonesia. So as one of your competitors has been restricted from buy-now/pay-later services in Indonesia, so any opportunity to further gain market shares from here? And do you have any color in terms of like mid-to-long term for the Indonesia business strategy and the new loan facilitation outlook?

The second question is regarding marketing expenses. As we see the marketing expenses uptick sequentially, what's the reason behind it? And also, can you break down the domestic and international customer acquisition cost? How do you expect the customer acquisition costs going forward?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Cindy, let me translate the question.

(Translated). Okay. Indonesia has huge opportunities to grow from multiple different aspects. As regulation tightens, the players will be affected, but we believe the market will consolidate with the better-quality players. From the company perspective, the entry barrier will also increase when regulations tighten. For example, the registered capital for new players increased to 25 billion Rp from just 1 billion Rp.

And we can share what we are currently doing. Apart from online customer acquisition channels, we are also doing offline customer acquisitions through multi-product, such as installment loans, electronics installments, and buy-now/pay-later, coupled with multiple scenarios, such as mobile phones, electric bikes, home electronics and furniture to reach the borrowers.

Indonesia has a large growing young population, and they tend to change mobile phones whenever there's a new release. Thus, we have also begun our operation with OPPO, a well-known mobile phone manufacturer to provide such services for them.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Cindy, let me do the translation.

(Translated). For S&M cost, about 70% of them are for China market, while about 20% to 30% is for the international markets. From the CPS perspective in Q3, China market was optimized to 6%, while International CPS maintained stable.

Going forward, depending on the macro environment and the company's strategy, we believe our sales and marketing costs will remain stable. And we will continue implementing the company's strategies of upgrading the models on customer acquisition, and we believe all these costs will be further optimized.

Operator: There are no further questions. We'll conclude our question-and-answer session now and turn the call back over to management for closing remarks. Thank you.

Jimmy Tan: Thank you all for joining the call. If you have any other further questions, please reach out to FinVolution Investor Relations team. Thank you all.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.