CNFinance Holdings Limited
Q1 2022 Financial Results Conference Call
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Executives:
Jane Jenn, Investor Relations
Bin Zhai, Chairman and CEO
Jun Qian, Vice President
Jing Li, Acting CFO

Analysts:
William Gregozeski, Greenridge Global

Presentation

Operator: Hello, and welcome to the CNFinance Announces First Quarter 2022 Unaudited Financial Results Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note, this event is being recorded.

I would now like to turn the conference over to Ms. Jane Jenn, Financial Manager of the Capital Market Department. Please go ahead.

Jane Jenn: Good morning and evening, and welcome to the CNFinance first quarter of 2022 financial results conference call. In today's call, our Vice President and Director, Mr. Qian Jun, will walk us through the operating results, followed by the financial results from our acting CFO, Ms. Li. After that, we will have a Q&A session. Our CEO, Mr. Zhai Bin, will also be available during the Q&A.

Before we start, I would like to remind you that this conference call contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934 as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "target," "going forward," "outlook" and similar statements.

Such statements are based upon management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties, and other factors, all of which are difficult to predict, and many of which are beyond the company's control, which may cause the company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the U.S. Securities and Exchange Commission. The company does not undertake any obligation to update any forward-looking statements as a result of new information, future events and otherwise, except as required under law.

Now, please welcome Mr.Qian Jun.

Qian Jun: (Speaking foreign language). Thank you, everyone, for joining us in this conference call. On today's call, we will introduce the company's financial and operational results in the first quarter of 2022, followed by a Q&A session.

During the first quarter of 2022, we were able to maintain stable business operation despite external challenges. We facilitated loans of 2.3 billion and recorded revenue and net income of approximately 420 million and 43 million, respectively.

Both of the daily average outstanding loan principal and revenue under the collaboration model had a year-on-year increase of over 20%, and was 10 billion and [40] million, respectively.

Now I will share with you the challenges we faced and the measures we took in the quarter, together with our future plans.

In 2022, our business was impacted by the economy downturn. The growth of China's national economy has slowed down, with GDP grow 1.3% as compared to Q4 2021. We experienced regional lockdowns caused by local outbreaks of Covid-19 in cities within China, including major cities like Shanghai, Shenzhen and Dongguan.

Moreover, our funding cost remained high as our major funding partners, the trust companies, continued to be put under tightened regulations.

In response to those challenges, the Company focused on stabilizing business operations and managing risks. We did the following works: First, we continued to provide MSEs with inclusive financial services. To help MSE owners whose businesses were interrupted by city lockdowns, we voluntarily lowered the interest rate of our loan products. In addition, we accepted more applications from sales partners to repurchase delinquency loans by installments, which left sales partners' room to give payment extensions to MSE owners.

Second, we expanded our funding sources and continued to promote diversified products, which allowed us to reduce funding cost and cover more customers. During this quarter, we started to cooperate with Zhongrong Trust and facilitated loans of 76 million. We also recommended prospective borrowers to commercial banks to facilitate loans of 40 million. Besides, we are close to start the trail run of the tripartite cooperation with Shaanxi international trust and PICC.

Third, we increased our support to sales partners. In order to help sales partners to grow their business under the current condition, we allowed more sales partners to repurchase delinquent loans by installment. The Company will charge a certain fee based on the terms of the installment. By allowing installment payments, we helped the sales partners improve their liquidity, and also increased the revenue of our own.

Fourth, given the ongoing fluctuations in China's property market, the Company maintained a rather low LTV ratio. The weighted average LTV for loans facilitated in Q1 was 56%. Besides, we took into account the operation conditions of sales partners and took a conservative approach in evaluating the potential credit losses of loans to keep the allowance coverage ratio at a safe level.

Going forward, we are likely to be continuously challenged by economic fluctuations. At the same time, we are also presented with huge opportunities as the government is now encouraging financial institutions to offer more support to MSE owners. To seize such opportunities, we will focus on diversifying our product [portfolio], helping sales partners expand their business scale and reducing our own funding cost.

The work plans are, first, we will strive to finish upgrading to an operation-oriented and asset-light model, under which we will act as service provider and manager of loans. Our plan is to introduce elite sales partners to sign contracts directly with trust companies, or bring in third-party subscribers to the subordinated unit of the new loans facilitated.

As of today, several sales partners have already signed contracts with trust companies. And a number of our trust company partners have conducted due diligence on third-party investor introduced by us. Based on our estimation, such cooperation arrangement will be ready to facilitate loans before the end of Q2.

Second, we will promote diversified products, expand customer coverage. The bank lending model will be one of our priorities, as this model allows us to reach customers with high credit ratings. Currently, the Company is introducing and helping commercial banks facilitate loans of 50 million every month. We are now seeking to establish cooperation with more commercial banks and make bank lending model a more important contributor to our revenue stream. Besides, we also want to start facilitating loans under the aforementioned cooperation with PICC before the second quarter ends.

Third, we will keep supporting our sales partners. We want to offer more flexible fee rate based on the terms and tenor of the installment to suit sales partners with different operational and financial capabilities. At the same time, we want to get trust companies involved. If a sales partner qualifies the standard of the trust company, the trust company could choose to pay us the full amount of repurchase on behalf of the sales partner and receive the installment payment from such sales partner.

Fourth, we will keep investing in technology and use it to empower the business growth. Our IT team is developing a mobile app that can integrate all the information related to loan application. By developing this app, we want to make it possible for our service team to obtain the status of borrower, channel information, loan product and fund in real time, and therefore, to timely interact with sales partners and our application reviewers. We hope this app could assist our service team with initial review and timely transfer of loan applications. The app is expected to be put into use in the second half of 2022.

Fifth, in order to offer loan products with lower interest rates, we will keep dialoging with trust companies on reducing our funding cost. Consensus has been reached between us and several trust company partners on that. Once the deal is finished, we will soon apply the fee cut of loans we facilitate.

The first quarter of 2022 was not all smooth, and we will surely be presented with both opportunities and challenges in the near future. We have gained valuable experience from fluctuations in the past, and have continuously refined our management and business strategy. We have [already] stayed true to our mission of providing accessible, affordable and convenient financial services to MSE owners.

With more supportive macro policies taking effect, we are confident that there will be another surge of capital demand from MSE owners. We believe we will be well-prepared to seize such opportunity and expand our business, increase our revenue and provide higher returns to our shareholders.

With that, I would like to hand the call over to Ms. Jay Li, the acting CFO of the Company, who will walk you through the first quarter 2022 financials.

Jing Li: Thanks, Mr. Qian, and thanks again to everyone for joining us today. I will walk you through our financials for the first quarter of 2022. Unless otherwise stated, all percentage changes I’m going to give will be on year-over-year basis. Also, unless otherwise stated, all numbers I’m going to give will be in RMB.

For first quarter of 2022, total interest and fees income was RMB417 million, as compared to RMB425 million in the same period of 2021.

Interest and financing service fees on loans decreased by 1.7% to RMB415 million from RMB422 million. That's primarily due to, A, lower average effective interest rates of outstanding loans; and B, the decrease of average daily outstanding loan principal in the first quarter of 2022 as compared to the same period of last year. The decrease in average daily outstanding loan principal was due to the lower loan facilitation volume in the first quarter of 2022, resulted from the lockdowns due to local outbreaks of Covid-19 in multiple cities within China.

Interest and fees expenses increased by 28.5% to RMB201 million, compared to RMB156 million, primarily due to the increase in the outstanding principal of other borrowings as well as the funding costs from trust companies.

Collaboration cost for sales partners, representing the sales incentives paid to sales partners, decreased by 19% to 80 million, compared to 98 million in last year. And it's primarily attributable to lower fee rate the Company paid to the sales partners resulted from lower average effective interest rates of outstanding loans.

Provision for credit losses was 33 million, as compared to a reversal of 17 million in last year. The increase was due to the increasing economic uncertainties caused by lockdowns in reaction to local outbreaks of Covid-19, as well as the downward pressure faced by China’s real estate market during the first quarter of 2022.

Net gains on sales of loans decreased, was 8 million as compared to 9 million in the same period of 2021.

Total operating expenses decreased by 15.2% to 80 million, compared to 94 million in the same period of 2021.

Income tax expense was 15 million for the first quarter of 2022.

Net income was 43 million, compared to 86 million in the same period of 2021.

As of March 31, 2022, the Company had cash, cash equivalents and restricted cash of 1.7 billion, compared to 2.2 billion as of December 31, 2021, including 1.2 billion and 1.5 billion from structured funds as of March 31, 2022 and December 31, 2021, respectively, which would be used to grant new loans and activities.

The delinquency ratio of our loans originated by the Company increased from 24% to 26% as compared to December 31, 2021 to this quarter.

And the delinquency ratio, excluding loans held for sale, for loans originated by the Company increased from 16% at December 31, 2021, to 17% as of March 31, 2022.

The NPL ratio for loans originated by the Company increased from 9.4% as of December 31, 2021 to 10.4% as of March 31, 2022.

The NPL ratio, excluding loans held for sale, for loans originated by the Company decreased from 2.1% as of December 31, 2021 to 1.8% as of March 31, 2022.

With that, we would like to open up the Q&A. Operator, please begin.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Will Gregozeski with Greenridge Global.

William Gregozeski: I have a few questions. Can you disclose what the average interest rate you're lending at right now is? And in the prepared remarks, you had mentioned the rate paid to the sales partner was lower. Is that a change in what they're getting, or just lower because there's less interest income in the quarter?

Jun Qian: (Speaking foreign language).

(Translated). So for your first question, the weighted average interest rate of our loans right now is around 16.4%. And the lower interest rate is not only because of our voluntarily adjustment, but also based on the macro economy condition and the regulation and policies of the government.

William Gregozeski: Okay.

Jun Qian: (Speaking foreign language).

(Translated). So this is a trend for overall rate cut, no matter is for us or the sales partners, and we did adjust our policy of collaboration cost to the sales partners. And we do want to keep their margin, but that has to be based on the growth of our business and the expansion of our scale.

William Gregozeski: Okay. But -- oh, sorry.

Jun Qian: No, go ahead.

William Gregozeski: Okay. So I guess if you could just talk kind of more generally about the impact the Covid lockdowns have had on the first quarter and having now? In the past, you've mentioned that you've had more demand than you had capital available to lend out; but you've also mentioned that Shanghai is a big market for you guys. So I was curious if you can talk about how much of an impact that's had on what you've just reported today, and then what's going on right now?

Bin Zhai: (Speaking foreign language).

(Translated). So yes, like you said, there was the relatively large impact on the demand for capital because of the lockdown policies in the first quarter. And as we have introduced, there wasn't only Shanghai, but also Shenzhen and Dongguan, they were locked down during the first quarter.

And we wouldn't say there wasn't demand, but it's just you cannot satisfy those demand due to the lockdown policies. And surely, it will last in the second quarter too, the impact. So you can see the impact based on our financial results, especially on the loan facilitation, which had a year-on-year decrease. But I wouldn't really say that the impact was that large; I think it still could be overcome.

So as for us, first off, we have a network that is scattered across China. So we will take advantage of this network and push the business growth in other areas that is not locked down.

Also, the second thing is we will push to reduce our funding costs, as well as refine our profit split with the sales partners to maintain a reasonable margin. Thank you.

William Gregozeski: Thank you. And I have two more questions. You've talked about trying to get to about 30% of your lending from the commercial model by the end of the year. Do you think that's still achievable?

Bin Zhai: (Speaking foreign language).

(Translated). We still remain positive about the development of the commercial bank model, because the government's policy that urges the banks to give more support to the MSEs has never been so strong, and it's getting even stronger. And our goal is one of our priorities to start collaboration with more commercial banks and to help them to facilitate loans to MSE owners. So we remain positive of our goal to make the balance under the commercial lend model 20% to 30% of the total loan book at the end of the year.

William Gregozeski: Okay. And you've kind of touched on in that answer, but the push from the government towards the SMEs, have you seen any impact on -- seen more demand from SMEs or anything government-related that's helping drive demand to you from SMEs?

Bin Zhai: (Speaking foreign language).

(Translated). Okay. So the government's support towards MSEs are mainly reflected from two aspects. So the first one is the supporting policies about refinance is one of the -- so there was a meeting from the State Council saying that they will have the support to refinance doubled.

And also today, the People's Bank of China also released a document saying the commercial banks should give financial support to MSE owners. And it's reflected in the tolerance in terms of the -- so there was a policy made by the People's Bank of China that saying we should give more freedom and more room for commercial banks to support the financing needs of the MSEs. And also, so we estimate that at the end of June, there will be another surge of demand from the MSE owner for capital.

William Gregozeski: All right. Thank you, guys.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Ms. Jane Jenn for any closing remarks.

Jane Jenn: That will be all today. Thank you for joining us. If you have any further questions, please feel free to contact our IR associates at ir@cashchina.cn. Thank you.

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