

CNFinance Holdings Limited
Q4 and FY22 Financial Results Conference Call
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Executives:

Ms. Jane, Manager of Capital Markets
Jun Qian, Director and Vice President
Jay Li, Acting CFO

Analysts:

William Gregozeski, Greenridge Global

Presentation

Operator: Good day, and welcome to the CNFinance Fourth Quarter and Fiscal Year 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, Manager of Capital Markets. Please go ahead.

Ms. Jane: Good morning and good evening, and welcome to CNFinance fourth quarter and fiscal year of 2022 financial results conference call. In today's call, our Director and Vice President, 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.

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 and 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 the forward-looking statements as a result of new information, future events or otherwise, except as required under law.

Now, please welcome Mr. Qian Jun.

Qian Jun: (Speaking foreign language).

(Translated). 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 fourth quarter and fiscal year of 2022, followed by the Q&A session.

The company generated interest income of RMB1.7 billion and net revenue under the commercial bank partnership model of RMB58 million for the fiscal year of 2022, ultimately achieving a net profit of approximately RMB140 million, an increase of approximately 111% over the same period of last year.

Given the strict pandemic prevention and control policies maintained in 2022, the company still achieved year-on-year growth in business scale as well as profitability, mainly due to the accomplishment of the following. We vigorously promoted the new products and expanded our customer base through it. Since its launch in 2021, the commercial bank partnership model has gradually gained recognition from the market and our partners.

After deepening cooperation with private banks including Sanxiang Bank and Yillion Bank in 2022, the commercial bank partnership model began to grow rapidly in the second half of 2022 and took shape at the end of the year. In 2022, the company recommended a total of RMB2.5 billion of loans to banks, meeting the target set at the beginning of the year. The net revenue under the commercial bank partnership model also increased.

We have reduced the funding cost. Management made a judgment at the beginning of the year that [more] conditions may change this year, and that there would be a relative abundance of funds. The subsequent developments were in line with management's expectations at the beginning of the year, and therefore, in order to take full advantage of the fee reductions by financial institutions, the company continued to negotiate with its trust company partners through the year and reached an agreement to reduce funding costs in the second half of 2022.

The company began to participate more actively in the capital markets during the year. The company continued to push forward for a secondary offering in 2022, and actively engaged with domestic and international investors. Through these contacts, we feel that both domestic and international investors continue to have a positive view of China's inclusive financial industry, and this has reinforced the company's confidence.

Of course, while fully recognizing the achievements of our business, it is important to note that there is still room for improvement. Due to the impact of the pandemic prevention and control policy on borrowers' solvency, as well as the overall efficiency of dispose of NPLs, our delinquency ratio has increased, and the sales partners have been under greater pressure to repurchase default loans. Under this circumstance, the company allowed more partners to fulfill their repurchase obligations in 2022 using installment payments, with CNFinance charging certain fees. This policy has eased the liquidity pressure of the partners and enriched the

company's revenue mix. We also plan to continue to refine our installment repurchase policy in 2023 to further reduce the burden on sales partners, and I will elaborate the details later.

We believe that 2023 will continue to be a year of uncertainty, and the recently released 2023 report on the work of governments also mentions that China "currently faces many difficulties and challenges in its development". In 2023, the company will coordinate the development of the scale, efficiency and quality, continue the transformation to a service platform in order to achieve high-quality development.

Our specific work objectives include: We will continuously develop new products, upgrade our model, expand our customer base and grow our scale. In this end, we will continue to deepen our cooperation with commercial banks. Other than negotiate with the current commercial bank partners on the ratio of deposits and seeking cooperation with more banks, we also plan to introduce sales partners into the commercial bank partnership model. Our goal is to let sales partners provide credit enhancement for the commercial banks with CNFinance act as the service provider.

Keep upgrading the funding model. In 2023, other than keep reducing the funding cost, we will actively negotiate with the venture capital institutions on refinancing with non-performing assets and use such capital to fuel the repurchase of the sales partners. By doing that, we are hoping to allow more sales partners to fulfill their obligations by installments payments.

We will continue to invest in technology and drive digital transformation. The company plans to further increase investment in technology in 2023 to promote the construction of an intelligent risk control system. We will collect data through research and analyze it to build a screening model suitable for the company, thereby empowering the business development by optimizing the entire loan approval process.

We will pay more attention to asset quality by better coordinating growth and asset quality. Firstly, we will optimize our credit approval model; secondly, we will use market data as a basis to provide guidance on which region we should put more resource in, and therefore, improve the quality of our portfolio. Our initial plan right now is to focus on expanding our business in tier-1 and new tier-1 cities.

The recently-released 2023 Report on the work of government once again emphasizes on encouraging and supporting the development and growth of the private economy and private enterprises, and supporting the development of small, medium and micro enterprises and individual [enterprises], which proves the management's estimation of China's inclusive financial industry will continue to be in a period of strategic opportunity, still applies to the current situation.

At the same time, the management believes that with the adjustment of the pandemic prevention and control policy and the government's efforts to stimulate domestic demand as one important task for national economic development in 2023, China's economy has the potential to pick up, and we will also seize the opportunity to continue to deepen our own reform, provide more micro and small business owners with better financial services, and also contribute our share to the cause of inclusive finance in China.

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 fourth quarter and fiscal year of 2022 financials.

Jay Li: Thanks, Mr. Qian, and thanks again to everyone joining us today. I will walk you through the fourth quarter and fiscal year of 2022 financials. We believe year-over-year comparison is the best way to review our performance. Unless otherwise stated, all percentage changes I'm going to give will be on that basis. And also, unless otherwise stated, all number I'm going to give will be in RMB. We will start with fourth quarter of 2022 first, and followed by the result of the fiscal year.

During the fourth quarter of 2022, total loan origination volume was 3 billion. And the total volume of loans recommended to commercial banks was RMB2 [billion].

Total interest and fees income were 465 million.

Interest income charged to sales partners was 33 million, which represents the fee charged to sales partners who choose to repurchase the default-rate loans in installments.

Collaboration cost for sales partners represents the sales incentives paid to sales partners decreased to 80 million from RMB120 million in the same period of last year. This is primarily attributable to a lower average rate the company paid to sales partners in the fourth quarter of 2022 as compared with last year.

The net revenue under the commercial bank partnership model, representing fees charged to commercial banks for services including introducing borrowers, initial credit assessment, facilitating loans from banks to borrower, and providing technical [assistance] to borrower and banks, net of fees paid to third-party insurance company, was 56 million. The company has started to collaborate with commercial banks since last year and such collaboration grew and scaled in the second half of this year.

The net income was 30 million, comparing a net loss of RMB105 million in the same period of last year.

Now let's move on to the results for our fiscal year of 2022. The total interest fees and income was 1.7 billion. And the total interest fees and expense was 785 million.

The interest income charged to sales partners, representing fees charged to sales partners who choose to repurchase default loans in installments, increased to 122 million from 33 million in the same period of last year.

The collaboration cost for sales partners representing the sales incentives paid to sales partners decreased to 321 million from 426 million for the same period of 2021.

Net revenue under the commercial bank partnership model, representing fees charged to commercial banks for introducing borrowers, initial credit assessment, facilitating loans from the banks to borrower and providing technical [assistance] to the borrowers and banks, net of fees paid to the third-party insurance company, was 58 million in this year.

The net interest fees income after collaboration cost was 693 million, representing an increase of 11% as compared with 615 million in the same period of last year.

And the provision for credit losses was 248 million for this year. And compared to a reversal of RMB273 million in the same period of last year. The reversal in last year was primarily due to the fact that the company transferred loans under a traditional facilitation model to third parties in bulk during the fourth quarter of 2021 and allowance of such loans was reversed.

The increase in provision for credit losses in this year was mainly due to the economic uncertainty caused by the COVID-19 pandemic and the relevant prevention and control measures, as well as the downward pressure faced by China's real estate market during 2022.

Net loss on sales of loans was 45 million for the fiscal year of 2022 compared to 451 million in the same period of last year, primarily attributable to the fact that the company transferred loans under the traditional facilitation model to third parties in bulk during the fourth quarter of last year. Such loans were all facilitated prior to 2019, and the majority of them were long past due.

Other gains, net of 90 million, compared with RMB19 million in the same period of last year is primarily attributable to the increase of credit risk mitigation position forfeited by the sales partners.

Total operating expenses decreased by 11% to 339 million as compared to RMB381 million for the same period of last year.

Net income increased by 111% to 138 million for the fiscal year of 2022, compared to 65 million for the same period of last year.

And the delinquency ratio, excluding loans held for sale, for loans originated by the company was 18.3% as of December 31, 2022.

And the NPL ratio, excluding loans held for sale, for loans originated by the company decreased from 2.1% as of December 31, 2021, to 1.1% as of December 31, 2022.

With that, we'd now like to open up the call for Q&A. Please.

Questions and Answers

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

William Gregozeski: Could you talk about your expectations for origination for the current year, especially between the split between trust and commercial because you did so much commercial origination in the fourth quarter. What is that percentage going to look like across this current year?

Qian Jun: (Speaking foreign language).

(Translated). So our targeted total loan origination volume in 2023 is around RMB20 billion, which is about 40% increase in that of 2022. And we're hoping 40% of that RMB20 billion has come from loans recommended to commercial banks.

William Gregozeski: Okay, great. And given the general economic uncertainty and property market uncertainty, are you guys seeing any more sales partners coming to the platform because of the additional services you guys provide in terms of the risk management and the installment plan, compared to doing it on their own, as they may have been doing before?

Qian Jun: (Speaking foreign language).

(Translated). Okay. So based on the data, very happy to see that the number of active sales partners as of the end of 2022 actually increased about 100, which is a 10% increase as compared to the same period of -- as compared to the end of 2021.

And also, I want to mention that besides the better services we can provide and the better risk management and external fundings, I think there are two major reasons why the sales partners are more willing to join our platform. The first thing is their confidence in how China's economy is going to pick up. And I think the second reason is that the repurchase by installment policy we rolled out in 2022. I think that really could help them ease their liquidity pressure and also help them to better manage their own risk.

William Gregozeski: Okay, great. As far as your current loan to value, do you guys have that ratio where it stood at the end of the year, compared to the year-ago period?

Qian Jun: (Speaking foreign language).

(Translated). So at the end of 2022, the average LTV ratio is around 60%, which remained rather stable through the past 3 years.

William Gregozeski: Okay. Given you guys are now breaking up the income charged to sales partners for these installment loans, is this a number that you guys are expecting will rise over the course of the year, or will it start to tail off as the economy and everything improves over the course of the year? How should we look at that line item?

Unidentified Company Representative: Could you repeat the second part of the question, please?

William Gregozeski: Yes. More just wanting to get an idea of where you guys see the interest charged to sales partners line item going over the course of 2023. Is it going to increase throughout, or increase and then start tailing off?

Qian Jun: (Speaking foreign language).

(Translated). Okay. So based on what we are seeing how the economy is picking up and recovery, I think the overall asset quality of the loans originated by us is going to be better, and which is going to drive down the overall delinquency ratio. And therefore, I think the total scale of how

much the sales partners have to repurchase is going to go down. And therefore, I think the interest income charged to our sales partners is going to remain rather stable in 2023, with a little going down.

William Gregozeski: Okay. And last question is more just general. Given the current environment, what do you guys see as the biggest risk for the company and biggest opportunity for the current environment?

Qian Jun: (Speaking foreign language).

(Translated). Okay. So I think the major challenge to CNFinance is whether we can contain the increase of delinquency ratio given the adjustment -- post the adjustment of pandemic prevention and control policies. And that means we have to focus more on the asset quality. So to address this challenge, we're going to take a couple of measures including -- I kind of want to focus more on expanding our businesses in tier-1 and new tier-1 cities, and just to lower the proportion that we're doing in tier-2 and tier 3 cities.

And also, we want to just use technology to refine the whole loan approval process and just to manage risks better. And also, I think the opportunities presented to us, including the first thing, is how China's economy is going to pick up, going to recover post the adjustment to the pandemic prevention and control.

And also the second thing is so after the past 2 years, we have finally seen the trading volume and property price in core areas start to recover. And since the majority of our business was conducted in such regions, I think that's another good news to us.

William Gregozeski: Okay, great. Thank you.

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

Ms. Jane: Thank you for joining us today. If you have any questions, please feel free to contact us at ir@cashchina.cn. Thank you.

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