CNFinance Holdings Limited
Q1 2021 Financial Results Conference Call
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Executives:
Matthew Lou, Investor Relations
Li Ning, Executive Director and Chief Financial Officer
Bin Zhai, Chairman and Chief Executive Officer

Analysts:
William Gregozeski, Greenridge Global
Rongrong Zhang, Cathay Capital

Presentation

Matthew Lou: We are still trying to reach our CEO, Mr. Zhai. Mr. Li will walk us through the financial part first, followed by the operational results from Mr. Zhai. Please open, our CFO Mr. Li.

Ning Li: Okay. Thank you, everyone, for joining us today. I will first walk you through our first quarter of 2021 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. Also, unless otherwise stated, all numbers I'm going to give will be in RMB.

First, total loan origination volume was 2,841.8 million during the first quarter of 2021, among which 37% was first lien and 63% was second lien.

Total outstanding loan principal was RMB10.3 billion as of March 31, 2021, with RMB8.7 billon under Collaboration Model and RMB1.6 billion under the Traditional Facilitation Model.

Interest and financing service fees on loans decreased by 13.7% to RMB422 million from RMB489.2 million, primarily due to lowered interest rates on loans facilitated in an effort to comply with the rules and regulations issued by relevant PRC regulatory authorities, including the Decisions of the Supreme People's Court to Amend the Provisions on Several Issues concerning the Application of Law in the Trial of Private Lending Cases issued in August 2020.

Interest and fees expenses decreased by 22.2% to RMB156.3 million compared to RMB200.9 million, primarily due to the lower average interest rate of the borrowings under agreements to repurchase and other borrowings in the first quarter of 2021.

Collaboration cost for sales partners, representing sales incentives paid to sales partners, increased by 4% to RMB98.1 million compared to RMB94.3 million, attributable to the increased loan balance under the collaboration model.

Provision for credit losses decreased by 93.8% to RMB13.7 million from RMB220.7 million. The decrease was mainly attributable to the combined effect of, first, the increase in outstanding loan principal under the collaboration model that was guaranteed by the Credit Risk Mitigation Positions put up by the sales partners; and second, lower probability of default under the current expected credit loss model, which takes into account the outlook of a more positive economic growth of China in the first quarter of 2021 as compared to that of the same period of 2020 under the impact of COVID-19 pandemic.

Net gains on sales of loans increased by 35.2% to RMB40.3 million from RMB29.8 million, primarily attributable to the increase of NPLs transferred to third-party purchasers and repurchased by sales partners.

Total operating expenses decreased by 6.3% to RMB94.2 million compared to RMB100.5 million.

Other expenses increased by 50% to RMB29.7 million from RMB19.8 million, primarily due to the recovery of COVID-19 pandemic, which led to the increase of promotion and advertising expenses and expenses associated with business trips of the employees.

Income tax expense was RMB29.2 million compared to income tax benefit of RMB16.5 million, primarily due to the fact that we recorded an income before income tax expense for the first quarter of 2021 as compared to a loss before income tax expense for the same period of 2020.

Net income was RMB85.6 million compared to the net losses of RMB65.7 million in prior year.

As of March 31, 2021, the Company had cash, cash equivalents and restricted cash of RMB2.2 billion including RMB1.3 billion from structured funds which could only be used to grant new loans and activities.

The actual delinquency rate for loans originated by the Company was 21.3% as of March 31, 2021. Under the collaboration model, the actual delinquency rate was 16.5%.

The actual NPL rate for loans originated by the Company was 10.9% as of March 31, 2021. Under the collaboration model, the actual NPL rate was 6%.

Okay. That's for my part.

Matthew Lou: And now our CEO Mr. Zhai Bin, to address the operational results for the first quarter of 2021. Mr. Zhai can start. Mr. Zhai?

Sorry, will be a couple of minutes. Our CEO is having a bad connection.

Unidentified Company Representative: Go ahead, please.

Unidentified Company Representative: (Speaking foreign language). Please go ahead, Bin.

Bin Zhai: Thank you, operator, and thank you, everyone, for joining us in the conference call. On today’s call, we will introduce the company’s -- I will be introducing the company's operational results of Q1 2021. And then I will take your questions with our CFO.

And I was sorry, I had a bad connection just now, and please, I will be leveraging our operational results now.

Unidentified Company Representative: Okay. (Speaking foreign language).

(Translated). We were able to record solid results for Q1 2021, and achieved a loan origination volume beyond our expectations. We originated loans of RMB2.8 billion, representing an increase of 143% from RMB1.2 billion RMB from the same period of last year. Our revenue provision for credit losses and net income during the quarter was RMB425 million, RMB14 million and RMB86 million respectively.

The recovery of national economy and the efficiency of our Collaboration Model were the main drivers for our growth. Please let me elaborate with details. Firstly, since the second half of 2020, China has effectively contained COVID-19 and productions have resumed nationwide. In Q1 2021, China’s GDP grew 18.3% from Q1 2020 and 0.6% from Q4 2020. The rapid rebound of China’s economy brings confidence in the future recovery of the world’s economies. We are seeing that the Chinese MSE owners’ demand for capital surged as their businesses recovered from the pandemic.

Also in the quarter, we noticed that commercial banks revised their qualification standards for loan applications, made it even more difficult for the MSE owners to meet. To seize this opportunity, our sales partners, scattered across over 40 cities in China, proactively reached out to the MSE owners and provided them with our affordable and accessible products in a timely manner.

Secondly, the strong growth in loan origination volume was a proof of the efficiency of the Collaboration Model. Since 2019, we have kept refining the collaboration model and optimizing our terms with the sales partners. As a result, the outstanding loan principal under the collaboration model has reached RMB 9 billion, and we are confident that the scale will continue to grow in the future.

In addition, our growth was also attributable to the longstanding support from our trust company partners. We have built long-term and mutually beneficial relationships with our trust company partners throughout the years. Even the trust companies have been reducing the total size of the nonstandard trust products to comply with the regulations. We were still able to secure sufficient funding from our trust company partners to satisfy the growing needs of our customers in this quarter.

Thirdly, in order to maintain healthy liquidity, we accelerated the dispose of delinquent loans. Under the Collaboration model, the sales partners are obliged to guarantee the loans they sourced with the Credit Risk Mitigation Positions. As a result, CNF’s risk exposure to losses became even lower. Moreover, we have designed mechanism for the sales partners to buy back the respective defaulted loans. These options increase the efficiency in delinquent loan disposals under the collaboration model.

During the first quarter, we had RMB440 million recovered by disposing delinquent loans, representing an overall recovery rate of over 100%.

As discussed, we recorded outstanding results in this quarter and we plan to carry out this momentum to tackle the challenges that may rise in the year of 2021. By reviewing our daily operation, we have prioritized the following tasks. First, We will continue to expand funding sources. We are currently relying on trust company partners to provide majority of our funding. Although our needs were met during the quarter, the regulations on limiting nonstandard trust products are bringing risks to match our growth demand for the year. We plan to strengthen our collaborations with our trust partners.

Meanwhile, we are diversifying our funding sources to secure sufficient funds to support our rapid growth. At this moment, we are proactively meeting with commercial banks to enhance our funding sources. We hope the collaborations with the new funding partners will fulfill the working capital demands of the MSE owners in China, and enable us to meet our set goal for 2021 in term of loan origination.

At the same time, we are actively adopting new approaches in collaborating with funding partners. We started direct cooperation with Blue Ocean Bank, as a service provider, we also set up a parallel structured trust plan with Zhong Hai Trust. We will continue to explore different collaborating approaches in the future.

Second, we will continue to improve the service and optimize management mechanism in the collaboration model. Our collaboration model has been widely recognized by the market. The loan originated volume has been gone up in almost each quarter since inception. In order to achieve high retention rate of sales partners, we plan to refine our incentive plans and provide various terms to our sales partners based on the volume and the quality of the assets they introduced. We will also invest in technology to provide sales partners with more specialized and custom-made services in every loan origination step.

Third, we will continue to invest in technology. We are aware, as the Collaboration Model keeps expanding, deploying technology to optimize our loan approval efficiency and credit assessment ability and achieve detail-oriented management will be the key to our future development. We plan to invest more on technology to first upgrade the approval procedure with smarter technologies; and then achieve higher data integration and a more advanced process visualization. From the customer perspective, we will improve the service quality and efficiency of document-signing and post-loan management.

In 2020, the Company experienced many challenges but delivered solid results to the shareholders. We believe 2021 will be another year of challenges. We will devote ourselves to securing more funding sources and lowering the funding costs, to seize the opportunity of increasing market demand and create higher value for our shareholders.

And that was the operational results by our Vice President of our Capital Market Department on behalf of CEO Mr. Zhai Bin.

Now, we'd like to open the Q&A session. Operator? Operator, we would like to open the Q&A session, please.

Questions and Answers

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

William Gregozeski: Great quarter. Can you disclose what the total number of transactions were in the quarter, and what the duration of the loans are that you're seeing right now?

Matthew Lou: (Speaking foreign language). Mr. Li will take your question.

Unidentified Company Representative: (Speaking foreign language).

(Translated). During the first quarter, the total number of transactions was over 5,000 nearly -- over 5,000. And the total loan origination volume was RMB2.8 billion, just as we noticed, and it was a significant increase compared to the same quarter of last year.

And the average duration of the loans we have facilitated during the quarter was a bit shorter than we expected, primarily due to the regulation changes last year, especially the limit on the APRs. So we are focusing on facilitating loans with a duration of 1 year during the quarter.

William Gregozeski: Okay. And then the interest expense you guys reported was quite a bit lower than what I was looking at. What was the -- can you give the average rate you guys were paying on your loans in the quarter?

Unidentified Company Representative: (Speaking foreign language).

(Translated). So the interest expense mainly consists of the interest we paid to our trust partners. And if we are speaking of the 12-month duration capital from the trust companies, it is around 5.5% to 9%. For capital, that duration is longer than a year; it's around 9.5% to 10%.

William Gregozeski: Okay. All right. And then with the forfeited sales partner position income that you reported, do you think it's fair to look at that and say that shows how derisked you guys are on these loans through your platform?

Matthew Lou: That was a little blurry. Could you repeat the question again?

William Gregozeski: Yes. With how high the forfeited sales partner position income was in this quarter, is it fair to look at that and think that it shows how derisked you guys are as a company for loans that go through your platform?

Unidentified Company Representative: (Speaking foreign language).

Unidentified Company Representative: (Speaking foreign language).

(Translated). So if you look at a measure on our financial statements, there is a provision for credit losses. And if we look at separate -- if you separate the collaboration model and the traditional facilitation model, you will see the provision for credit losses, as a percentage of the revenue, under the collaboration model, was around 0.8% to 1%, which is way lower than that under the traditional facilitation model. So I think it is fair to say we are derisked.

William Gregozeski: Okay. And last question, do you have expectations you can provide for origination volume for all of 2021 and 2022?

Unidentified Company Representative: (Speaking foreign language).

(Translated). First of all, the year-over-year growth of loan origination in the first quarter of 2021 was mainly because Q1 last year, China was heavily -- under heavily effect of the pandemic, so there was a significant increase in this quarter year-over-year. But as compared to the fourth quarter of 2020, during which we facilitated RMB2.7 billion, and this quarter we recorded RMB2.8 billion. So considering that, if we don't see huge market fluctuations and we are able to securing sufficient funds as we are doing now, I'm projecting RMB3 billion loan origination every quarter. And that's the bottom line.

William Gregozeski: Okay, great. Thank you, guys.

Operator: Thank you. (Operator Instructions). Rongrong Zhang of Cathay Capital.

Rongrong Zhang: (Speaking Chinese).

(Translated). Mr. Li, I noticed that in your balance sheet, you have around $330 million of cash, and that number is actually higher than your market cap. So is that number -- could you elaborate that number on the balance sheet of cash?

Unidentified Company Representative: (Speaking foreign language).

(Translated). So we had cash-on-cash and cash equivalents. If we present that in Renminbi it is around RMB2.2 billion and that's the number you said in dollars. So in my part of introducing the financial results of the quarter, I also had a part mainly introducing the cash and cash equivalents and restricted cash. So among that RMB2.2 billion of cash, we had RMB1.3 billion actually was under -- was from structured funds, which could only be used to grant new loans. So yes, that's what consist in our balance of cash.

Rongrong Zhang: (Speaking Chinese). Thank you.

Operator: At this time, we have no further questions. I'd now like to turn the call back over to management for closing remarks.

Matthew Lou: Thank you, everyone, again for joining us in this conference call. If you have any further questions, please feel free to reach us at ir@cashchina.cn. Thank you. Thank you, everyone.

Operator: The call has now concluded. Thank you for attending the presentation. You may now disconnect.