CNFinance Holdings Limited
First Half 2024 Financial Results Conference Call
Tuesday, August 27, 2024, 08:00 AM ET.

Executives:
Simon [Tan], Manager of Capital Markets Department
Jun Qian, Director and Vice President
Jing Li, Acting CFO

Presentation

Operator: Hello, and welcome to the CNFinance Holdings Limited First Half of 2024 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 [Simon Tan], Manager of the Capital Markets Department. Please go ahead.

Simon Tan: Thank you, Joe. Good morning and evening. And welcome to the CNFinance first half of 2024 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 financial results from our acting CFO, Ms. Li. After that, we will have a Q&A session.

Before we start it, 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 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 the 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 take any obligation to update any forward-looking statement 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).

Good day, everyone. Thank you for joining us today. In the first half of 2024, our focus was squarely on navigating the macroeconomic uncertainties by reinforcing our business fundamentals and ensuring the quality of our assets. During this period, we originated loans of RMB6.9 billion. As of June 30, 2024, our outstanding loan principal was approximately RMB16 billion, reflecting a year-over-year growth of about 10%.

To manage potential risks, we continue refining our credit approval strategy, and strengthened our efforts in collecting and disposing of nonperforming loans. As a result, we maintained our nonperforming loans ratio at approximately 1.2% as of June 30, 2024, consistent with the level at the end of last year.

We recorded an interest income of approximately RMB930 million, up 5% compared to the same period last year. However, while we benefit from a continued decline in interest rate of our trust financing, the increase in average daily loan principal under the trust model lead to a slight year-over-year rise in interest expense.

Since the start of the year, we have enhanced our collaboration with third-party asset management institutions, particularly in area of overdue loan collections. This strategic move significantly boosted our recovery [amounts], will also lead to a corresponding increase in operating expense due to service fees paid to the third-party institution. Despite these additional costs, our net income from operating activities for the first half of 2024 was approximately RMB220 million, remaining largely flat compared to the same period last year.

We have maintained a prudent approach in provision for impairment, with the increase in our outstanding loan principal, the provision for credit losses increased to RMB172 million. Consequently, our net profit for the period decreased to RMB48 million.

Our key area of focus for the half-year period includes, first, we continue to drive down our funding costs. With market interest rates trending downward, we actively engaged in negotiation with our funding partners to secure more favorable financing terms. Leveraging our long-term relationships, we achieved a reduction in our average financing rate by approximately 4% year-over-year. The reduction allowed us to pass on the benefit to our customers with end-user interest rate decreasing by about 1 percentage point.

Second, we strengthened our support for sales partners. This quarter, we observed a further easing of liquidity pressure on our sales partners. It's more often resuming their repurchase obligation to protect the loan they recommended. This share benefit-share risk model has been instrumental in reducing our risk exposure.

Third, we maintain our focus on asset quality. We concentrate our business efforts on the core area of first-tier and new first-tier cities, with over 90% of our loan is in the period being originated in these regions. In addition, we deepened our cooperation with third-party asset management companies, enhancing our capability in collecting delinquent loans. Through these efforts, we successfully maintained our NPL ratio at 1.2% as of June 30, 2024, while achieving a recovery rate of 110% during the period.

As we look ahead, we recognize the ongoing uncertainty in the macroeconomic environment and the adjustment in the real estate market. We are committed to adjust the quality pressure of our existing loans and navigating the uncertainty surrounding new loans. To that end, we will continue to adjust our strategy, focusing on ensuring asset quality and enhancing operational efficiency. Our goal is to improve both quality and profitability of our business.

Our specific measure moving forward includes enhancing our focus on asset quality. We will rigorously manage our credit approval standard for new loans, ensuring the quality of forward and collateral.

Additionally, we will continue to improve the efficiency of our delinquent loan recoveries, particularly through settlement recoveries, which offer the advantage of fast recovery and high recovery rates. We plan to deepen our cooperation with third-party asset management company to further leverage this advantage, improving both recovery speed and recovery rates.

Strengthening our product innovation, we will maintain the high quality and fast advantage of our product while expanding our product portfolio to adapt to various scenarios. To support these new business scenarios and enhancing overall efficiency, we will continue to optimize our sales system and adjust our credit approval policy, incorporating additional dimensions into our approval models.

Further strengthening our compliance efforts, we are committed to continuously improving our risk control and compliance process through target actions, which will help us prevent the non-market risk cases.

Now I will hand over the time to our CFO, Ms. Li Jing, and she will introduce the financial results for the first half of 2024 to you.

Jing Li: Our total interest and fees income increased by 4.7% to 926.5 million from 884.5 million. Total interest and fees expenses increased to 401.7 million from 366.3 million. The increase in total interest and fees expenses was mainly due to the increase in average daily balance of interest-bearing borrowings.

Net interest and fees income was 524.8 million, representing an increase of 1.3% from 518.2 million. Net revenue under the Commercial Bank Partnership model was 58.4 million as compared to 50.1 million in the same period of 2023.

In the first half of 2024, the majority of borrowers were introduced by sales partners, and the commission paid to sales channels has decreased, which has ultimately led to an increase in the net revenue under the commercial bank partnership model.

Collaboration costs for sales partners decreased by 3.9% to 159.2 million from 165.6 million. Net interest and fees income after collaboration cost increased by 5.3% to 424 million from 402.7 million in the same period of 2023.

Provision for credit losses increased to 170.8 million from 129.6 million in the same period in 2023. The increase was mainly due to the increase in outstanding loan principles.

Other expenses increased by 62.2% to 97 million from 59.8 million in the same period of 2023, primarily due to the increase in fees paid to third-party asset management company to collect delinquent loans. The net income was 48 million as compared to 93.1 million in the same period of 2023.

As of June 30, 2024, the company had cash and cash equivalents and restricted cash of 1.6 billion, including 1 billion from structured funds as of June 30, 2024, which could only be used to grant new loans and activities. The delinquency ratio for loans originated by the company increased from 15.5% as of December 31, 2023, to 16.4% as of June 30, 2024.

The NPL ratio for loans originated by the company was 1.2% as of June 30, 2024 compared to 1.1% as of December 31, 2023.

With that, we would like to start the Q&A session.

Questions and Answers

Operator: Just one moment, please. Okay. At this time, I understand that this will conclude the question-and-answer session. I would like to turn the conference back over to [Simon Tan] for any closing remarks.

Simon Tan: That's all for today. Thank you for joining us. If you have any more questions, please feel free to reach us at ir@cashchina.cn. Thank you.

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