

[FINV] - FinVolution Group
Q3 2021 Earnings Conference Call
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Officers

Feng Zhang, CEO
Jiayuan Xu, CFO
Jimmy Tan, Head of Investor Relations

Analysts

Eric Lu, China Renaissance
Hanyang Wang, 86Research
Alex Ye, UBS
Thomas Chong, Jefferies

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the Third Quarter 2021 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 will now turn the call over to your host, Jimmy Tan, Head of Investor Relations for the Company. Jimmy, please go ahead.

Jimmy Tan:

Thank you, Andrew. Hello, everyone, and welcome to our third quarter 2021 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. Feng Zhang, 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.

Additionally, 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. Feng Zhang. Please go ahead, sir.

Feng Zhang: Thanks, Jimmy. Hello, everyone, and thank you for joining us today. I hope you and your families remain safe and healthy in the 'new normal' Covid-19 environment.

Thanks to our advanced technologies, industry-leading digital capabilities and strong corporate strategy execution, we continue to expand our business with robust momentum across each of our segments, both domestically and internationally.

Given our stronger-than-expected results, greater confidence in business trends and successful strategy execution, we have raised our total transaction volume outlook for 2021. We now expect transaction volume for the year to reach between RMB130 billion and RMB135 billion, representing a year-over-year increase of 103% to 111%, above our prior guidance of RMB100 billion to RMB120 billion.

Let me now outline some of our third quarter highlights. Total transaction volume maintained its strong growth trajectory, reaching a new record high of RMB38.1 billion, representing an increase of 120% year-over-year and 14% sequentially.

Notably, our total outstanding loan balance expanded to RMB45 billion in the quarter, representing an increase of 101% compared with the same period last year. This growth was primarily driven by a new, fast-growing and higher-quality customer base. We gained over 1.18 million new individual customers in Q3, marking the third consecutive quarter during which we've exceeded 1 million new borrowers globally.

Our domestic business demonstrated progressive growth under clearer regulatory guidelines. Looking at our transaction volume composition, China accounted for RMB37.1 billion, up 118% year-over-year and 14% sequentially. We are also pleased to share that in October, as we continued to acquire better-quality borrowers, our percentage of loans facilitated at or below IRR 24% further increased to 80%, compared with just 29% in Q2, while our average IRR borrowing cost further reduced to 24.3% compared

with 26.2% in Q2, indicating a higher compliance level and reflects our commitment towards greater financial inclusion for the society.

Our take rate for the third quarter remained stable at 4.2%, and we are confident that the cap rate's future impact on our financials will be minimal.

Our higher-quality borrower base is expanding rapidly, with 827,000 new customers acquired during the quarter. Our diversified borrower acquisition strategy is working efficiently and we are well-positioned to leverage this strategy for further business expansion. We have established partnerships with multiple leading traffic platforms and expect to further diversify our online acquisition channels.

Our offline customer acquisition team also expanded to over 700 employees in 20 different cities, covering around 80% of China's provinces. We expect our offline team to reach around 1,000 employees by the end of the year.

As we refined our risk management systems and enhanced our asset quality, our 90-day plus delinquency rate remained low at 1.04% and vintage delinquency for the third quarter is expected to decrease to below 2.3%.

Moving to our operations for small business owners, during the quarter, transaction volume for small business owners grew rapidly to RMB7.9 billion, accounting for 21% of total transaction volume for the period. The total number of small business owners we served grew to 488,000, an increase of 20% from the previous quarter. With huge market potential and a more supportive regulatory environment, we believe small business owners present a very promising opportunity for our long-term growth.

Going forward, we expect transaction volume for small business owners' loans will comprise approximately 20% of total transaction volume for the full year.

With respect to our global expansion, we are thrilled to explore new product offerings, and have made impressive strides in strengthening our international partnerships. For example, we entered into a strategic cooperation with PT Bank Jago in Indonesia, which increased our local loan facilitation capabilities and broadened our presence across different market segments in the country, including retail, mass market and others, opening up new potential areas for cooperation.

In addition to our facilitation business, we teamed up with local e-commerce and e-wallet partners such as JD Indonesia and Dana to launch operations in the Buy-Now-Pay-Later sector. Our customers' and partners' initial feedback has been overwhelmingly positive, and we are confident we can achieve greater success in this area.

Along with our venture into the BNPL sector, we are also shifting towards better-quality customers as to achieve high-quality growth. With this objective in mind, we have also been increasing our investments in areas such as technologies, talents development and customer acquisition for our global expansion.

We have also taken the initiatives to groom local talents for management duties reflecting our long-term commitment and confidence in this business. Despite the recent resurgence of Covid-19 cases in Southeast Asia, we were still able to generate over RMB1.05 billion in transaction volume, up 233% year-over-year and 12% sequentially. Concurrently, our outstanding loan balance for the quarter was RMB480 million, up 269% year-over-year and 17% sequentially.

Going forward, we will continue to leverage our technological capabilities to strengthen our foothold in countries where we have established a presence, while exploring potential cooperation with local financial institutions, e-commerce platforms and other players. Using our multi-level approach, we believe we can acquire better-quality customers and further diversify our business models, making financial services more accessible and inclusive for borrowers from around the world.

The global financial technology industry is evolving rapidly. And over the past several years, we have successfully demonstrated our capabilities and achieved tremendous growth in this dynamic industry. We have advanced multiple strategic initiatives, grown our customer base while improving the quality of our customers. Looking ahead, we will continue to pursue premium quality growth in China while capturing massive growth opportunities in international markets.

Last but not least, I would like to highlight some of our successful corporate social responsibility initiatives. Since 2016, we have performed our duties diligently as a responsible corporate citizen, as we supported various social welfare organizations, donated school supplies to children and built kindergartens in rural mountain areas, and donated cumulatively over RMB18 million to regions in need.

Also, together with our funding partners, we have provided low-interest loans for small business owners, increasing access to quality financial services for the underserved segment of business society. To build on our efforts to help small business owners as they recover from the pandemic, FinVolution will provide over RMB100 million of interest-free loans for small business owners. We are proud to support the backbone of China's economy and do our part for society during this challenging time.

With that, I will now turn the call over to Jiayuan Xu, who will discuss our financial results for the quarter.

Jiayuan Xu: Thank you, Feng, and hello, everyone. We are pleased that FinVolution delivered respectable financial and operational results for the third quarter of 2021. As a result of our continued efforts to transform our business and technology to meet the needs of credit service industry, our net revenues rose to about RMB2.5 billion, up 6% quarter-over-quarter.

Our profitability also continued to improve during this quarter. Leverage ratio across our business is relatively low at 3.9 times, while our balance sheet remains solid with RMB5.1 billion in unrestricted cash and short-term investments.

In September, we successfully issued and listed our first ABS on China's Shenzhen Stock Exchange, marking an important milestone in our transition towards better-quality borrowers. Funding on our platform continue to be ample and stable. We have cumulatively cooperated with around 60 licensed financial institutions, and will constantly maintain a strong and robust pipeline of potential partners. We expect future improvements in funding efficiency as we continue to diversify our funding sources. These results are a powerful testament to our effective business strategy and skillful execution.

We are confident that we will gain momentum as we continue to accelerate our overseas expansion, strengthen our services for small business owners and increase investment in technology advances. We will also continue to invest in our core capabilities and infrastructure, big data insights, AI capabilities and our people to better serve our customers, partners and communities around the world.

Now, turning to the financial results for the third quarter. In the interest of time, I will not walk through each item line-by-line on this call. Please refer to our earnings release for more details.

Net revenue increased by 41% to RMB2.5 billion in the third quarter of 2021 from RMB1.8 billion in the same period of 2020, primarily due to an increase in loan facilitation service fees and post-loan facilitation service fees.

Loan facilitation service fees increased by 121% to RMB1.1 billion in the third quarter of 2021 from RMB486 million in the same period of 2020, primarily due to the increase in transaction volume.

Post-facilitation service fees increased by 124% to RMB361 million in the third quarter of 2021 and RMB[161] million in the same period of 2020, primarily due to the increase in outstanding loans serviced by the company and the rolling impact of deferred transaction fees.

Guarantee income was RMB645 million in the third quarter of 2021 compared to RMB747 million in the same period of 2020 as a result of improved asset quality.

Net interest income increased by 28% to RMB333 million in the third quarter of 2021, from RMB261 million in the same period of 2020, mainly due to increase in transaction volume in the international markets.

Other revenue decreased by 19% to RMB112 million in the third quarter of 2021, from RMB138 million in the same period of 2020, primarily due to the decrease in customer referral fees from other third-party platforms.

Non-GAAP adjusted operating income, which excludes share-based compensation expenses before tax, was RMB751 million in the third quarter of 2021, representing an increase of 8% from RMB698 million in the same period of 2020.

Net profit was RMB632 million in the third quarter of 2021, representing an increase of 6% compared to RMB597 million in the same period of 2020.

With the Covid-19 recent resurgence in China and other regions around the world, the Company will continue to closely monitor the pandemic situation and remain vigilant in its business operations. As such, the Company holds a cautious view on its operations, and anticipates its transaction volume guidance for full year 2021 to be between RMB130 billion and RMB135 billion, representing a year-over-year increase of 103% to 111%, above our prior guidance of RMB100 billion to RMB120 billion.

Going forward, we are confident to maintain healthy growth in 2022 and resume robust growth for the year ahead.

That concludes my prepared remarks. We will now open the call to questions. Operator, please continue.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Eric Lu with China Renaissance.

Eric Lu: Congrats on the solid results in the third quarter. So my question is about the outlook for 2022. So can you please give us some color about 2022 in terms of the loan pricing policies, for example, the IRR by the end of 2022? Also, about the loan origination plan and development plan in your overseas market.

Jiayuan Xu CFO: (Speaking foreign language).

(Translated). Specific numbers for 2022 are still early at this stage. We will provide guidance for 2022 at a later time. We will also take the opportunity to share our (indiscernible) demand. We think the macro environment has been very good, and the macro environment for this year will have some [profitability] and is unlikely to exit this year.

Regulation (indiscernible) been clarified. However, we still to wait and execute the orders at ground level. The phone companies will have (indiscernible) when executing these orders at ground level. Overall, we will have a more cautious execute in 2022.

We have achieved strong results this year. In 2020, we have successfully complete our B2B transition and seek to better-quality borrowers, which results in our transaction volume growing more than 100% year-on-year. Our key operational metrics have also shown significant improvement. For example, our 90-day-plus delinquency ratios improved by around 70% to 1.04% in this quarter, from 3.4% in the same period last year.

Also our banking costs fell by 7% to 7.6% in this quarter from 8.2% in the same period last year.

As a leading technology platform, we are confident to maintain our stellar operational metrics, and achieve stronger growth than our peers. Our objective is to achieve long-term sustainable development. As you can see, our average prices in the third quarter was 25.3% and (inaudible) our borrowing costs further reduced to 24.3[%]. And for this year, we expect our borrowing cost to be below 23%.

In terms of reducing borrowing rates to 24%, our platform progress (inaudible) of our peers, and we are very well prepared. If we are talking about the 24%, we have basically achieved this goal.

Eric Lu: (Speaking foreign language). Thanks.

Operator: Hanyang Wang with 86Research.

Hanyang Wang: (Speaking foreign language). Congratulations on our great third quarter results. I have two questions -- firstly, regarding on the funding source and cost. So what is the current situation of ABS share of registration? And how should we project the funding cost as a proportion of the ABS funding to increase?

Second is our international business, so can you share a small update on the final credit business? And what were the overall growth of the international business look going forward?

Jiayuan Xu CFO: (Speaking foreign language).

(Translated). And so late September, we have issued our first ABS, which is at RMB200 million with a coupon interest rate at 5.5%. And this is actually a milestone for the company. Our ABS shelf registration is (inaudible) and this will be earning (indiscernible) parity for us in 2022. We believe we are on track and the process has been (inaudible). We believe in the future, when the ABS shelf registration has been complete, the ABS will become a very important composition in our funding sources.

Let me take the opportunity to share some market data with you. The countries which we have already established a presence have massive market opportunities. For example, Indonesia, Philippines and Vietnam have a combined population of around 500 million. It is higher than the U.S. population and it is not small compared to China. And its loan to GDP ratio is about 8.3% with a low-credit penetration rate of between 3% to 4%.

And when compared with China, these countries have huge opportunities. For example, China loan to GDP ratio is about 40.8% and the credit penetration rate is around 21%. And the U.S. loan to GDP ratio is about 20% with a credit penetration rate of 66%.

We are different from other smaller platforms. Our objective is not in making a quick buck in the country; instead, we are looking for long-term sustainable development. We believe developing countries will gradually lower the interest rate cap over time, and we have already begun attracting towards better-quality borrowers. And before we begin operations in a new country, we will be compliance by having the appropriate license in place and source for the appropriate partners.

From the operation perspective, we will enter the market through an easier product and eventually, shift towards higher-quality borrowers like what we have been doing in China. Our successful business model in China can also be replicated in these Southeast Asia countries. For example, our CEO, Mr. Zhang, has mentioned that we have launched BNPL in Indonesia. And we are working with partners such as Dana and JD Indonesia.

As for the results, we will be sharing more results with the market in the later quarter. And we do intend to explore business model with banks and other partners. For example, we have also begun the loan facilitation model with Bank Jago in Indonesia. And we have secured an additional US\$30 million as funding sources for our loan facilitation business in Indonesia.

We have great confidence in our international business, and we will increase our investment in this business segment. For example, we have established an international scheme with over 900 employees. And the scope of these employees ranges from R&D operations and marketing. And by the way, the localization of these international employees has reached 86%. And going forward, we will continue to invest in our international business.

Hanyang Wang: So may I have a further question on the shareholder return plan? Do we have a detailed plan or policy for the dividend payout in the future? Any color will be helpful.

Jiayuan Xu CFO: (Speaking foreign language).

(Translated). As you know, we have been distributing annual dividend over the last 3 years. And we are now actively exploring an annual dividend Xpolicy, and will share it with the market during our next earnings quarter. Since 2018, we have cumulatively distributed around 143 million in dividends.

Hanyang Wang: (Speaking foreign language). Very helpful, thank you.

Operator: Alex Ye with UBS.

Alex Ye: I have two. First one is on take rates. So you have mentioned the take rate has remained stable in Q3. So I'm wondering how did you manage to achieve that even though your APR has been decreasing over the quarter? And could you also share with us some color on how does the take rate for your new loans priced under 24% versus the portfolio? So that would give us some color on your forward-looking trend.

And given you're -- already 80% of the new loans is already priced at under 24% as of November, so when should we expect your take rate to stabilize going forward? That's on first.

And secondly, some of your peers have been discussing their details about -- their discussion about working with (indiscernible) about the collaboration in terms of data transfer with the banks, after the credit is growing, regulation was rolled out. So also wondering if you could share with us some details of the current progress from your side?

Jiayuan Xu CFO: (Speaking foreign language).

Jimmy Tan Head of Investor relations: Okay. Let me translate, Alex.

(Translated). In the third quarter, our average pricing was around 25.3% with a take rate of 4.2%. In October, our average pricing was 24.3%. It is close to -- it is already very close to 24% and our take rate was around 4% in October. Going forward, next year our , average pricing, will be around 23%, and we believe our take rate will be around 3.6%. This is under the assumption that there is no improvement in funding cost, or there's no improvement in our credit risk performance. However, we believe there's still room for improvement in these 2 metrics.

And from our observation for borrowers priced at or below 24%, they have better credit performance. For example, the day one delinquency ratio for this segment was 4.6% compared to 5.6% for the overall segment.

We have been very proactive in our pricing reduction. However, please note that our total transaction volume has not been impacted at all. In fact, in October, our transaction volume has reached RMB12.5 billion, which is another record high for us.

Jiayuan Xu CFO: (Speaking foreign language).

Jimmy Tan, Head of Investor Relations: Okay. Let me translate.

(Translated). The direct linkage between financial institutions is a top priority for us. And we have been in constant communications with Baihang credit bureau and many of our peers. At the moment, we believe the work progress for most of the platforms regarding booking direct linkage between financial institutions and platforms is at about the same pace.

The regulator has given a clear direction, but some degree of complexity remains in the ground execution, which needs to be further discuss. The regulator has given us sufficient grace period until the June -- end of June 2023 to implement the changes. And we believe the final proposal from the different platforms will largely be similar.

Jimmy Tan, Head of Investor Relations: Let me translate again.

(Translated). We have two different proposals: A, we will proactively cooperate with credit rating agencies to determine the plan; and B, we will explore the possibilities of using a financial license to conduct our business. For example, you guys do know that we already have a micro lending license, and we will also explore the possibilities of setting up a nation-wide micro lending company.

Alex Ye: (Speaking foreign language). That's all from me. Thank you.

Operator: (Operator Instructions). Thomas Chong with Jefferies.

Thomas Chong: I have two questions. First, how does macro headwinds and the property sector outlook affect our business trends?

And my second question is that how does data security and the privacy laws to affect our business?

Jiayuan Xu, CFO: (Speaking foreign language).

(Translated). As we have mentioned earlier, we will adopt a prudent attitude for 2022. We have also mentioned that we have seen some volatility in our risk metrics, and we will counter by -- we will have some control measures in place such as controlling the approval rate. We will provide some guidance in the later stage. And overall, we are still confident to have stronger operational metrics ahead of our peers.

Let me share what the company has been doing to protect data privacy and security. From the perspective of information system and data security, we need to prevent external hacking and also actively prevent internal information leakage. From an information system security perspective, information system and data control are a lifelong process.

Our network is equipped with firewalls, network intrusion detection system, vulnerability scanning system, auditing system, anti-computer virus software, and other security products to achieve in-depth defense. And together with our third-party security vendors, we have built a joint venture SRC. And with the introduction of external [white-hat] hackers, we have established round-the-clock security inspection.

The company has also self-developed a privacy self-check platform and is able to strengthen the whole inspection process for data privacy.

From the perspective of data, the company attach great importance to the protection of user data privacy and have established a professional cross-departmental compliance team to evaluate and design the safety of the entire live process for user data -- example, collection, transmission, processing, storage and destruction. Our in-house R&D team has developed a management platform to strengthen the control of database access.

All manual, we have -- sorry -- we have self-developed a system called Finway to check unauthorized access, and it will prevent all unauthorized access. The company works with a number of security agencies such as tail lamps, electronic spot, etc., to implement the app's mandatory policy for each update and provide compliance protection data.

Feng Zhang: That's all. Thank you.

Thomas Chong: Thank you.

Operator: As there are no further questions now, I'd like to turn the call back over to the company for closing remarks.

Jimmy Tan: Thank you for joining our third quarter earnings conference call. If you guys have any further questions, please feel free to reach out to our IR team, and have a nice day. Thank you.

Operator: This concludes this conference call. You may now disconnect your lines. Thank you.