

[FINV] - FinVolution Group
Q4 & Full Year 2023 Earnings Conference Call
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Executives

Tiezheng Li, Chief Executive Officer
Jiayuan Xu, Chief Financial Officer
Jimmy Tan, Head of IR

Analysts

Yada Li, CICC
Cindy Wang, China Renaissance
Alex Ye, UBS

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the Fourth Quarter and Full Year 2023 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'll now turn the call over to your host, Jimmy Tan, Head of Investor Relations for the Company. Jimmy, please go ahead.

Jimmy Tan: Hello, everyone, and welcome to our fourth quarter and full year 2023 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. Tiezheng Li, 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 statement except as required under applicable law.

Finally, 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. Tiezheng Li. Please go ahead, sir.

Tiezheng Li: Thanks, Jimmy. Hello, everyone, and thank you for joining our earnings call. This is Tiezheng Li, CEO of FinVolution Group. We are happy to speak with you today. When I became CEO 1 year ago, FinVolution set a clear objective: become a leader in the fintech industry, providing inclusive finance solutions for underserved borrowers and small business owners.

In 2023, we advanced toward that goal with continued strong execution of our Local Focus, Global Outlook Strategy, adapting to the unique situations in different markets. I'm thrilled to report that we delivered exceptional progress on all fronts. Throughout the year, we maintained our robust momentum with progressive expansion in China while pursuing much faster growth internationally, where economic conditions were more favorable. We have achieved leadership positions in both Indonesia and the Philippines, while also fortifying our success and high-quality growth in China as we proactively adjusted our strategies to suit China's dynamic economy.

Performance-wise, we continued to grow our business across the board despite evolving macroeconomic challenges. The cumulative number of borrowers we served in China, Indonesia, and the Philippines has reached 30 million, growing at an accelerated pace with a net increase of around 3 million new borrowers year-over-year.

For full year 2023, our total transaction volume reached RMB194 billion, and our outstanding loan balance reached RMB67 billion, representing year-over-year increases of 11% and 4%, respectively. Net revenue for the full year 2023 reached RMB12.5 billion, up 13% year-over-year.

Our international business grew exceptionally well in 2023, propelled by our effective global outlook strategy of pursuing rapid growth in overseas markets. International transaction volume for 2023 soared to RMB7.9 billion and outstanding loan balance rose to RMB1.3 billion, up 85% and 58% respectively compared to the prior year.

International market revenue increased to RMB2.1 billion, up 86% from full year 2022. Over the past year, international revenue's contribution to total revenue increased significantly, rising to 17% in 2023 from 10% in 2022.

Meanwhile, with our local focus strategy of pursuing high-quality growth in China, we continued to achieve progressive growth domestically. Transaction volume increased to RMB186 billion while outstanding loan balance reached RMB66 billion, up 9% and 4% respectively compared to the prior year. Revenue from the China market in 2023 further expanded to RMB10.4 billion, up 4% compared to the prior year.

Another notable improvement was funding cost, which improved by 30 bps on a quarterly basis and by around 100 bps year-over-year. Our stable borrowing rates, coupled with better-than-industry delinquency rates and enhanced operational efficiency, enabled us to sustainably deliver higher ROA compared to the industry.

We also strengthened our commitment to small business owners, supported by a prudent approach during this fragile and sometimes volatile recovery period. In 2023, we served over 811,000 small business owners and facilitated RMB47 billion of loans for them, up 8.5% compared with last year and representing 25% of total transaction volume in China.

FinVolution is a fintech frontrunner with profound expertise across an extensive industry footprint. Part of our commitment to shareholders is to continue propelling the Company's sustainable development and industry-wide digital transformation through technology innovation. I'd like to share just a few of the pivotal technological advancements we made throughout the year.

We amplified our investments in technological R&D, driving high-quality growth. Leveraging cutting-edge technology, we significantly improved and optimized our operational processes across all markets in which we operate. This included increased R&D investment of over RMB500 million in 2023 to strengthen different aspects of our technologies, such as the automatic speech recognition capabilities, greatly improving its grasp of Chinese dialects while boosting our chatbots' efficiency and accuracy.

R&D is critical to our ongoing success, and we continue to invest in our tech and our people. As of December 31, 2023, we proudly employed a dedicated R&D team of around 700 skilled professionals, and have built a comprehensive IP portfolio that comprises 239 registered software copyrights, and a successful filing of 179 patent applications, including 53 invention patents already granted.

Each of our R&D accomplishments enhances our offerings to consumers and sets new benchmarks for the financial services industry, spurring FinVolution's growth and industry-wide progress.

In recognition of these efforts, the Shanghai Municipal Commission of Economy and Information recently honored FinVolution on its Shanghai 2023 Double Hundred Lists for Software and IT Service Excellence. We earned prestigious rankings on both lists, securing the 18th and 26th position respectively. These commendations recognized our contributions to technology innovation and the advancement of the industry.

Last but not least, ESG remains a top priority at FinVolution. We diligently enhanced our integrated ESG program throughout 2023 with a focus on inclusion and giving back to society. For example, we have cumulatively offered RMB120 million of interest-free loans for eligible small business owners to help turn their dreams into reality. Our commitments and efforts have also been recognized by several renowned independent rating agencies with above-average industry ratings.

We celebrated FinVolution's 16th anniversary in 2023, a milestone that affords us a glimpse of our future prospects as an enterprise grounded in sustained, long-term growth.

Over the past 16 years, our business model and strategy have been validated by success in the face of multiple challenges, such as the P2P transition, shift towards better-quality borrowers, and international expansion amid the pandemic. As an independent platform with limited resources, we are proud to have expanded and flourished in all markets in which we operate.

Going forward, we will remain committed to serving borrowers in our existing markets while increasing the pace of our international expansion by acquiring more licenses and expanding into additional countries and regions to deliver innovative financial services to more borrowers. Our Local Focus, Global Outlook strategy will continue to guide us and drive our healthy and sustainable development as we embark on 2024.

By leveraging our peerless technologies and operational advantages, we are confident to replicate our domestic and international success in new markets, unlocking value and making the Company a world-class fintech enterprise while consistently returning value to our shareholders.

With that, I will now turn the call over to our CFO, Jiayuan Xu, who will discuss our operational and financial results.

Jiayuan Xu: Thank you, Li, and hello, everyone. Welcome to our fourth quarter and full year 2023 earnings call. Let's go through our key results for the fourth quarter. To be mindful of the length of earnings call today, I encourage listeners to refer to our fourth quarter earnings press release for further details.

Despite GDP growth of over 5% in 2023, China's overall economic environment continues to evolve. We leveraged our various strengths to navigate the turbulence and concluded 2023 on a solid note. Our domestic transaction volume reached RMB50 billion for the fourth quarter, up 6% year-over-year and 2% sequentially, while outstanding loan balance grew to RMB66 billion, up 4% year-over-year and 2% sequentially. Achieving growth in both metrics amid such a soft consumer environment is a testament to our business's resilience, as well as our outstanding technology, innovation, and operational excellence.

We have observed several notable improvements as we move through the first quarter of 2024. During the recent Lunar New Year, consumption activities picked up rapidly with 474 million tourist trips nationwide, up 19% from the comparable period in 2019. Total tourism spending also climbed 8% to RMB633 billion from the comparable period in 2019, with air and train travel surpassing 2019 levels by 15% and 36%, respectively, reaching new record highs.

Box office ticket sales also rebounded and reached more than RMB8 billion, setting a new record for the holiday period. Furthermore, several macro metrics exhibited varying degrees of improvement. For example, total social financing in January increased to RMB6,500 billion, up 9.5% year-over-year.

Total retail consumption in December further increased to RMB4,355 billion, up 7.4% year-over-year. February's manufacturing and services PMI indexes also improved slightly to 49.1 points and 51 points.

We believe these signs reflect the dawn of a new era, wherein consumer spending trends are shifting away from large ticket items, such as automobiles and properties, to smaller ticket items like travel-related expenditures and other consumption activities. Amid these complex dynamics, we drove a modest yet encouraging recovery in our consumer credit demand through our ongoing refinement of borrower demographics and quality, with the number of new borrower applications increasing by between 3% to 5%.

Cumulatively, we have served over 25 million borrowers in China, and the number of unique borrowers for the fourth quarter was 2.1 million.

In addition, we further enhanced our credit risk assessment and fraud detection technologies during the quarter, which empowered us to navigate the macro headwinds and stabilize our asset quality. Our Day 1 delinquency rate improved to 5.3% in December and further improved to 5.2% in February. We expect our vintage delinquency for the most recent 3 months to be 2.5%, demonstrating our business's resilience.

Bolstered by the deployment of our advanced speech recognition technologies, as well as the AI-powered chatbots Li mentioned earlier, our loan collection recovery rate for the recent 3 months remained healthy at 87%.

In terms of our funding partners, as our reputation in the industry continued to rise, we have further diversified our funding sources. The cumulative number of our funding partners has expanded to 94 financial institutions as of the end of the fourth quarter, with funding cost improving by around 100 basis points year-over-year.

Moving on to our second growth driver, our international expansion, which continues to outperform our targets and expectations. We embarked on our global expansion journey in 2018 and have been deeply investing in elevating FinVolution's visibility worldwide ever since. Indonesia, our first overseas market, continued to record macroeconomic growth. Its consumer confidence index remained high at 125 points in January.

Full year sales of the motorcycles, the most popular mode of the transportation in Indonesia, surged by 19.4% to 6.2 million units year-over-year.

Our second overseas market, the Philippines, also ended 2023 with positive macro data. The Philippines was among the fastest-growing economies in Asia, with fourth quarter GDP growth of 5.6%. Manufacturing PMI was 51 points in February and has remained above 50 points since September.

Cumulatively, we have served over 4.8 million borrowers in international markets as we continue to explore diversified customer acquisition channels to attract new borrowers. The number of new borrowers from international markets increased by 20% year-over-year to 1.37 million and the number of unique borrowers rose by 18% year-over-year to around 1.9 million in 2023.

International transaction volume for the full year 2023 soared by 85% year-over-year, reaching RMB7.9 billion. Transaction volume for the fourth quarter reached RMB2.25 billion, up 64% year-over-year. At the same time, our outstanding loan balance as of December 31, 2023 grew to RMB1.3 billion, up 58% year-over-year.

As we deepened our roots in Indonesia and fortified our reputation, the [population] of loans facilitated from local financial institutions in Indonesia increased to over 90% from 63% in the same period of 2022, reflecting our credit assessment model's effectiveness as well as deepening trust from local financial institutions.

The Philippines has also demonstrated excellent growth. During 2023, the number of new borrowers in the Philippines grew by over 188%. This led to exponential growth in its transaction volume and outstanding loan balance, which surged by over 200% on a year-over-year basis, contributing around 20% of international transaction volume in the fourth quarter.

Thanks to our proven record as a trusted lending partner, we have also secured institutional funding in the Philippines and also have a strong pipeline of future institutional partners in place. These accomplishments have boosted our confidence, as well as our visibility, as we emerge as one of the top players in the Philippines. In 2024, we expect our Philippines operation to maintain its robust, high double-digit growth momentum.

International business revenue in the fourth quarter progressively increased to RMB602 million, up 53% year-over-year, and represented around 19% of the Company's total revenue. From a full year 2023 perspective, international revenue reached RMB2.1 billion, up 86% year-over-year, and representing 17% of the Company's total revenue, marking a significant achievement in our international development.

This success has readied us to amplify our international expansion efforts with strategic initiatives, such as refining borrower demographics, acquiring licenses, and venturing into new countries. The outstanding progress we've made in our overseas markets across multiple operational and financial metrics serves as a springboard for our ongoing expansion and development.

On a related note, we continue to build our international business's presence and brand awareness on leading social media platforms through AIGC-driven upgrades to our creative advertising campaigns. As of the end of the fourth quarter, we had more than 1 million followers on Facebook, and our followers on TikTok grew at an accelerated pace to reach over 860,000, up more than 15% quarter-over-quarter.

Social media will be a key means of reaching our target audience with our overseas marketing efforts as we enter new countries and debut innovative products.

Now, turning to our financial metrics. Driven by strong execution of our Local Focus, Global Outlook strategy, net revenues for full year 2023 increased to RMB12.5 billion, up 13% year-over-year, while net income increased to RMB2.38 billion, up 5% year-over-year.

As of the fourth quarter, our leverage ratio, which is defined as risk-bearing loans divided by shareholders' equity, remained stable at 4.1x, reflecting opportunities for growth when the macro economy normalizes. Our strong balance sheet and liquidity position continue to enhance shareholder confidence while providing us with optimal flexibility to execute our strategy.

In particular, our cash position remains robust, with over RMB7.9 billion of cash and short-term liquidity as of the end of December 2023, representing an increase of 12% year-over-year. We believe our current cash position is sufficient to support our business expansion while increasing our return of value to our shareholders.

Now, let me briefly update you on our capital return program. Since 2018, we have continuously returned value to our shareholders in the form of share repurchases and dividends. Recently, our board of directors approved our 6th annual dividend in the amount of US\$0.237 per ADS, an increase of 10.2% year-over-year.

For full year 2023, we returned a total of around US\$160 million to our shareholders, consisting of US\$62 million in dividends and US\$98 million through share repurchases, representing a capital return rate around 49% of 2023 net income. As of December 31, 2023, the Company has cumulatively returned US\$605 million to our shareholders. These actions underscore our consistent commitment to enhancing shareholder value.

Before I conclude my remarks, I would like to provide some additional color on our business outlook for 2024. Despite the evolving macro environment, our business continues to thrive and progress. We are gaining substantial momentum as we focus on advancing our international initiatives, propelling technological innovation, expanding our healthy consumer base and optimizing our product profile.

As a result, we expect our transaction volume in the China market in 2024 to be in the range of RMB195.7 billion to RMB205 billion, representing an increase of around 5% to 10% year-over-year. In addition, we expect international transaction volume in 2024 to be in the range of RMB9.4 billion to RMB11 billion, representing year-over-year growth of around 20% to 40%.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). The first question comes from Yada Li with CICC.

Yada Li: (Speaking foreign language). Firstly, considering the current macro environment, I was wondering what adjustments have we done in the lending strategy, customer acquisition and risk management? And with the help of these matters, how to view the asset quality going forward?

And secondly, for the international branches, what are the growth and profit outlooks for our Indonesian and Philippine's markets respectively? That's all.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Okay. Yada, let me do the translation.

(Translated). From observation and study, China macro economy is still facing uncertainties, but expect to have a gradual recovery. Around the third quarter last year, we have observed some negative impact on the industry, which results in asset quality fluctuations. We have been quick with our responses. For example, we have reduced customer acquisitions from lower-quality channels, and stepped up our model updates from higher-quality channels, updating the models, tightening the approval rates and credit limit for borrowers whom are more prone to economy uncertainties, such as those with a higher level of debt.

We have also closely monitored changes in our core metrics, such as Day 1 delinquency and loan collection recovery rates for the disbursed loans. And through the analysis of different borrower segments and tightening approval rates, we have ensured financial services for higher-quality borrowers, for example, those with lower debt levels remain intact.

For post-loans, I believe you are aware of the impact on loan collections due to the reductions of telephone lines. The impact on us is minimal due to our sufficient advanced preparations of telephone lines, which are able to satisfy the needs of our post-loan collection team. Although our loan collection recovery rate slightly declined from 89% to 87%, we are still leading ahead of the industry. And with the implementation of these efforts, we have seen positive results in December.

For the recent 3 months, our Day 1 delinquency rate improved to 5.3% from 5.7% in the third quarter, and further improved to 5.2% in February, while loan collection recovery rate remained stable at 87%, with vintage delinquency returning to 2.5%. Our recovery should be ahead of the industry, and we are confident to maintain industry-leading asset quality with continuous improvement going into 2024.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Okay. Yada, let me do the translation.

(Translated). Your second question is on the whole international expansion, and we will break down the expansion into different countries. For example, Indonesia has a new price cap in 2024. Our Indonesia's operations in the fourth quarter have been impacted by local regulation change. And since January 1, 2024, all our new loans have met regulatory requirements and are fully compliant with regulation.

The pricing adjustments means that our borrowers' cohort model data and rules have to undergo a series of adjustments. Based on our past experience, we will need around 6 months to complete all these changes. And from the current outcome, these changes have been positive. For example, through adjusting our borrowers' cohorts, the risk metrics have improved by 20%, reducing the impact of rates reductions.

And also, from a customer acquisition perspective, we have seen many small and medium platforms reducing their customer acquisition efforts, which led to an 8% decrease in our customer acquisition costs. And this further helps to reduce the impact of price reduction in Indonesia. In part, in the first half of 2024, Indonesia's operations focus will be on product adjustment and improving the customer quality instead of a rapid growth.

And during the second half of 2024, we will reevaluate our strategies based on macro situation. And in 2024, we expect Indonesia to achieve profitability. The profitability from the business view will be better compared to the financial view, due to the rules of the accounting policies.

In addition, we have also disclosed some additional data points for our Philippines operations. Over the past few years, Philippines operations have been developing very rapidly. And from current observation, Philippines's economy and regulatory environment have been relatively stable. We will expect the rapid growth to continue into 2024, and we are currently number two in the cash loan segment of the market.

We believe we can achieve our target of number one by the end of the year. Additionally, we expect that our Philippines operations can achieve profitability in the second half of the year under the relevant accounting rules.

We have managed to achieve profitability in both Indonesia and Philippines. And going forward, we will consider to strengthen our investment in different types of licenses, diversify our operations and enhance our brand image to further increase our competitive advantage. We are also actively exploring new countries and these countries are not limited to Southeast Asia. And we also consider other methods of expansion to speed up our international footprint.

Thank you, Yada.

Operator: Cindy Wang with China Renaissance.

Cindy Wang: (Speaking foreign language). So the first question is related to the customer acquisition cost. Since you are aggressively on the international market expansion, so what is your CAC target this year?

The second is related to the Philippine market. The Philippine market grown very strong in 2023. Can you talk about the competitive landscape? And how do you achieve to be number one market share position this year? And how would that contribute to the international market revenue in 2024?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Thank you. Let me do the translation.

(Translated). We have been operating in the Indonesian market for quite a period of time in the past 6 years, and we have a deep understanding of the market. Information feeds continue to be the main method to acquire better-quality borrowers for us. Although the pricing cap has some impact on our operations, we have made adjustments to our models and the results have been very positive.

For example, when we have higher-quality borrowers, we are able to increase our ticket size with longer loan tenure, and the fee rates further improve with weaker competition. And we believe this trend will continue in 2024, and we will reevaluate our customer acquisition strategies in the second half when the macro environment stabilizes.

For the Philippines, it is in a much earlier stage compared to the Indonesian market. And over the past 2 years, our marketing efforts are much more proactive, and it has been pretty stable among the top of the industry. And we believe this trend will continue into 2024.

Jiayuan XU: (Speaking foreign language).

Jimmy Tan: Okay. Let me do the translation.

(Translated). We entered the Philippine market in 2020 and this is our fourth year of operations. Philippines has a population of around 120 million, and our target customer base is around 40 million. To date, we have registered users of around 5 million and our borrowers is around 740,000. There are currently over 100 players, and the largest players are from the U.S. and local Philippines companies.

We believe as a fintech company from China, our advantages are obvious, and we will continue to leverage on our advantages and duplicate our success in China and Indonesia in the Philippines market. Around 20% of our transaction volume for the international market is coming from the Philippines in the fourth quarter, and we believe this proportion will continue to increase in 2024.

Operator: Alex Ye with UBS.

Alex Ye: (Speaking foreign language). I will do the translation. First on the Indonesian market, so after the pricing adjustments coming this year, how do management expect the impact on revenue and earnings? And do you expect any sort of move from the regulators with regards to the timetable to further adjustments in interest rate cap, and how will we tackle the trends?

And secondly, in terms of the total shareholders' return, we note the company has also speeded up the pace of the share repurchase this year, bringing the total payout ratio to 49 percent, or how should we expect a more sustainable payout ratio going forward?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Alex, let me do the translation.

(Translated). We have actually shared upfront Indonesia data earlier, and we expect the take rate, after our pricing adjustment, to be around 10%. And prior to the pricing adjustment, it was around 13%. And from our perspective, we expect pretax return on assets ratio to be around 2.4% (by volume basis) after the deduction of CAC and some other operating costs. And based on the current regulators' advice, there might be a further change in price reduction. We need to reevaluate these in the second half of the year. However, based on the current operations, we believe our business will remain at a healthy level even if further price reduction kicks in.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hi, Alex, let me do the translation.

(Translated). First of all, I would like to reiterate FinVolution's position. We are a global consumer finance technology company. Our success has been validated in China, Indonesia and the Philippines with leadership positions. In the recent years, as China market matures, our business entered into a stage known as high-quality progressive growth.

On the other hand, based on our observation, the international markets are still in early stages of development, where market opportunities for growth is enormous. And we are very confident to cement our success in Indonesia and the Philippines while expanding to more countries, ensuring a rapid growth rate for our company.

Our capital return program is closely in line with our company positioning. We hope rapid and healthy business growth can be the main way to create value for our shareholders. Over the last 3 years, we have proven this point. We have completed the business transition of our China business and expanded internationally with an average CAGR growth of over 44% in transaction volume and revenue growth of around 20%.

And apart from this, we have also returned value to our shareholders through our capital return program. We began our dividend program and share repurchase program since 2018, the earliest in our industry. Over the last 6 years, we have cumulatively returned over US\$600 million to our shareholders, equivalent to almost half of our market cap today.

In 2023, we deployed close to US\$100 million to repurchase our shares and US\$62 million for dividend distribution, representing around 50% of net income for 2023, and a combined yield of 11%. In 2023, our dividend per ADS was US\$0.237, the fourth year of

consecutive increase. And on the 5 years' average, this increase in dividend was about 10%.

And I would like to emphasize on this: For China ADRs, there are not more than six companies with 5 years of consecutive dividend distribution and consistent increase in DPS, and we are one of these companies.

And in summary, we are returning value to shareholders in terms of growth and a leading capital return program. Going forward, we will continue with this belief and let high-quality growth remain as our core method to return value to our shareholders, and concurrently, maintain a leading capital return program. Regarding dividend, we are confident to maintain our track record and continue to deliver consistent increase in dividend for our shareholders.

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 all once again for joining us today. If you have any further questions, please feel free to contact FinVolution Investor Relations team.

Operator: This concludes the conference call. You may now disconnect your line. Thank you.