

[FINV] - FinVolution Group
Q3 2024 Earnings Conference Call
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Executives

Jimmy Tan, Head, Capital Markets
Tiezheng Li, Chief Executive Officer
Jiayuan Xu, Chief Financial Officer

Analysts

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

Presentation

Operator: Hello, ladies and gentlemen, thank you for participating in the Third Quarter 2024 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 like to turn the call over to your host, Jimmy Tan, Head of Capital Markets for the Company. Jimmy, please go ahead.

Jimmy Tan: Hello, everyone, and thank you, and welcome to our third quarter 2024 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 statements 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. FinVolution made great progress despite the period's challenges through strong execution of our Local Excellence, Global Outlook or LE-GO strategy. Although China's overall economic growth remained restrained in the third quarter, we anticipate more sustainable improvements in the fourth quarter, given the bolder-than-anticipated stimulus measures announced in late September.

Also, we have made great progress toward the objective of achieving 50% of our revenue coming from the international market by 2030. By constantly leveraging our experience in China and ongoing technological improvements, we have propelled rapid growth in international transaction volume. This has translated into higher revenue and net income contribution, with international revenue contribution increasing significantly from 3.7% in 2020 to 10.3% in 2022 and expected to be around 20% in 2024. Over the years, we have also consolidated our capabilities into individual modules, which we can flexibly deploy while adapting to the evolving requirements of different countries.

In line with our objective of increasing our international revenues, we recently strengthened our international team and invited Dr. Sun Xiao Dong to join us as our Senior Vice President for International business. Dr. Sun has held key positions at renowned firms such as Ant Financial international, MyBank, American Express and Citibank. Bolstered by Mr. Sun's leadership and expertise, we are confident of accelerating our international business expansion and achieving new milestones.

As of September 30, 2024, we have cumulatively served 32.6 million borrowers across China, Indonesia, and the Philippines. For our international markets, we are proud to share that the number of unique borrowers grew from 0.7 million in 2020, to 1.6 million in 2022 and to 2.1 million for the first 9 months of 2024. Also, it is worthy to note the number of new borrowers were 0.63 million in 2020, 1.1 million in 2022 and 1.5 million in the first 9 months of 2024, validating the high percentage of new borrowers in our international business.

The acquisition of high-quality borrowers across all our markets remains an important element of our strategy. As a result, the total number of new borrowers across all our platforms once again exceeded the 1 million mark. We're very pleased to share that as we enhanced our global operations during the third quarter, the number of new borrowers in

international markets reached 671,000, up 60% year-over-year and 43% quarter-over-quarter.

Notably, the number of new international borrowers surpassed the number of new China borrowers for the second consecutive quarter. Such strong growth underscores our execution excellence and our strategy's effectiveness in driving the rapid expansion of our international business.

For the third quarter, total transaction volume reached RMB52.2 billion while total outstanding loan balance reached RMB68.1 billion, up 1.8% and 3.3%, respectively, year-over-year. This continued growth across all the markets in which we operate validates our strategy's efficiency and sustainability.

Given the low penetration rate for financial services in our international markets, we continue to enhance our holistic approach to customer acquisition with innovative marketing campaigns that capitalize on our strategic partners' resources and our local teams' deep understanding of market trends. For instance, our comprehensive social media strategy continues to attract new site visitors and enhance our brand's exposure, facilitating positive word-of-mouth publicity and projecting a trustworthy image that encourages borrower conversion.

As of the end of the third quarter, our total followers on major social media platforms reached 2.5 million, up 21% year-over-year.

As a tech pioneer, we are leveraging tech innovation to strengthen our operations and promote the fintech industry's integrity and security. During the third quarter, FinVolution presented its detection solutions for combating deep fake voice-command scams during the 33rd International Joint Conference on Artificial Intelligence in South Korea. Advancements in voice synthesis technology are making it increasingly difficult to distinguish between genuine and cloned voices, posing significant risks in terms of data security and asset protection affecting different industries.

We believe that our sophisticated, large-language-model-based solutions have the potential to effectively fight voice-command fraud, safeguarding our users' interests and fostering a healthy industry ecosystem. We have also integrated large language models into our loan collection recovery process, which has improved our loan collection recovery rate and saved us millions of dollars.

The development of such innovative technologies is a result of our strong commitment to R&D and the annual FinVolution Technology Cup Competition, which has incubated many cutting-edge solutions over its 9-year history. Looking ahead, we will continue to invest heavily in R&D to enhance service quality and operating efficiency empowered by leading technologies across our operations.

Before I wrap up, a brief update on our ESG efforts. In line with our core commitment to financial inclusion, we continued to support the backbone of the economy by facilitating loans for small business owners during the third quarter. As agile, community-oriented providers of local employment opportunities, thriving small businesses ultimately

contribute to a more rapid economic recovery. During the quarter, we empowered 447,000 small business owners with loans totaling RMB15.4 billion during the quarter, up 25% year-over-year.

In summary, we successfully navigated the third quarter's challenges by capitalizing on our strengths in technology, customer acquisition and retention. We also continued to attract quality talents across multiple countries, which has further strengthened our R&D capabilities and will eventually enable business process outsourcing from Indonesia and the Philippines, facilitating our expansion as we enter into more new markets.

Firm execution of our Local Excellence, Global Outlook strategy, continuous technological innovation, and our unwavering commitment to our vision of financial inclusion continue to drive our steady progress and long-term, sustainable growth. Going forward, we are confident of becoming the leading fintech player across the Pan-Asian region.

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

Jiayuan Xu: Thank you, Li, and hello, everyone. Welcome to our third quarter 2024 earnings call. Let's go through our key results for the third quarter. To be mindful of the length of earnings call today, I encourage listeners to refer to our third quarter earnings press release for further details.

As Li mentioned, the recent announcement of a series of bolder-than-expected stimulus measures during China's national holidays has resulted in positive growth in travel and consumption data. During the National Day holiday period, 765 million domestic trips were made, a year-over-year increase of 5.9%. Domestic tourists collectively spent around RMB701 billion, representing year-over-year growth of 6.3%.

Alongside the trend of consumption recovery, consumer willingness to purchase houses in first-tier cities, such as Beijing, Shanghai, Guangzhou, and Shenzhen, has rebounded significantly due to favorable real estate policies. Furthermore, the Manufacturing PMI rose by 70 basis points in September, reaching 49.8 points, the highest level since May.

During the third quarter, we observed ongoing improvement across multiple operational metrics in our China market. For the first 9 months of 2024, the transaction volume in China reached RMB142 billion, up by over 4% year-over-year. Other operational metrics also exhibited varied degrees of continuous improvement.

Furthermore, our average borrowing rate in China remained stable in the third quarter, a strong validation of our commitment to financial inclusion. Leveraging ample market liquidity and a continuous shortage of quality loan assets, we further improved our funding cost by an additional 50 bps in the third quarter. Since the beginning of the year, we have improved funding cost by 190 bps, reflecting financial institutions' strong recognition of our asset quality and credit risk assessment capabilities.

Regarding risk, we achieved significant improvement in our recent D1 delinquency rate, driving a 20-basis point improvement to 4.9% through effective use of our end-to-end evolving credit risk assessment models. Meanwhile, our loan collection recovery rate rebounded to 88.5%, up 50 basis points quarter-over-quarter.

Given our growing confidence in the acceleration of the macroeconomic recovery, we anticipate sustaining the improvement for the remainder of the year. We also maintain our expectation that vintage delinquency rate for the quarter will improve to around 2.4%.

Turning now to our international expansion, our validated second growth driver. For the first 9 months of the year, internationally, transaction volume reached RMB7.2 billion, up 29% year-over-year. Revenue contribution from the international markets grew further to RMB636 million, up 9% year-over-year and representing 19% of total revenues.

Capitalizing on a robust global macro environment through effective execution of our LE-GO strategy, we are confident in our international operations' sustainability and the diversification of our business models across various countries.

Let me begin with our first and largest overseas market, Indonesia. This market continues to exhibit strong growth momentum, with the consumer confidence index remaining above 120 points for 21 consecutive months. We expect further stimulation in local consumption following a 25-basis point reduction in the benchmark 7-day reserve report rate to 6%.

In September 2024, motorbike sales in Indonesia increased by 3.7% year-over-year, reaching 529,000 units.

After several months of business adjustments aimed at attracting high-quality borrowers under the new pricing cap, we are pleased to announce that our transaction volume in Indonesia has resumed growth, reaching RMB1.8 billion, a sequential increase of 11%.

This quarter also marks one of our best-performing quarters ever in terms of transaction volume. Following the completion of our recent business adjustments, we forged a new strategic partnership agreement with Super Bank, a leading digital bank in Indonesia, highlighting the trust and recognition we have earned from local financial institutions. To date, we have entered into strategic partnerships with multiple renowned digital and traditional local financial institutions, including Super Bank, Bank Jago, Sea Bank, OCBC Bank, and Permata Bank, among others.

I also want to highlight that after several quarters of preparation, we have successfully acquired a large majority stake in a local multi-finance company, which will enable us to diversify our products into non-cash loans. This, in turn, will empower us to expand our presence to serve more borrowers. The completion of this acquisition underscores regulators' trust and confidence in our local operations.

In the Philippines, our second international market, robust macroeconomic conditions are boosting consumption. In September, the Purchasing Managers' Index, PMI, reached 53.7 points, reflecting year-over-year growth of 6% and a sequential increase of 5%. This

macro trend also drove a reduction in the Philippines' unemployment rate to 3.7% in September 2024, down from 4.5% during the same period last year.

Notably, private consumption in the Philippines has accounted for over 70% of its nominal GDP for over a decade, serving as the country's primary growth engine, bolstered by steady remittance inflows and a strong labor market.

Our Philippines operations continued to outperform expectations, with transaction volume growing 137% year-over-year and 24% sequentially to RMB838 million. It's also worth noting that its contribution to international transaction volume grew to about 32% for the quarter.

We have established robust financial and operational partnerships in the region, and remain highly confident in our ability to sustain rapid growth here. For example, while strengthening our Buy Now Pay Later BNPL partnership with TikTok, we have also initiated a pilot project with another leading e-commerce platform to diversify our customer acquisition channel.

Furthermore, we have ample funding from leading local financial institutions such as Maya Bank, SEA Bank and Union Bank to support our growth. These solid partnerships have enabled us to capitalize on the vast opportunities in the Philippines market.

Given the accomplishments we have achieved in our international markets, we are confident we can replicate this success in additional countries and regions by leveraging our in-depth experience and technological advantages.

Now, turning to our financial metrics. This quarter's operational excellence resulted in a solid financial performance. Net revenue for the quarter reached RMB3.3 billion, marking a 3% increase year-over-year and a 3% increase sequentially. Net income was RMB624 million, representing a 9% increase year-over-year and a 13% increase sequentially.

Meanwhile, Sales & Marketing expenses rose by 6% year-over-year to RMB560 million as we continued to strengthen efforts to acquire new borrowers of high quality in both China and international markets.

Furthermore, our leverage ratio, defined as risk-bearing loans divided by shareholders' equity, remained low at 3.2x, reflecting potential growth opportunities as the macroeconomic environment stabilizes.

Our total liquidity position, consisting of cash and cash equivalents plus short-term investments, reached around RMB9 billion, up 13% from December 2023, showcasing a robust balance sheet that is well able to support our business growth and exploration of new opportunities while consistently increasing shareholder returns.

Before I conclude, let me briefly update you on our share repurchase program. During the third quarter, we deployed around US\$24.3 million to repurchase around 4.6 million

ADS on the secondary market. For the first 9 months of 2024, we deployed US\$81.1 million to repurchase our shares in the market, up 23% year-over-year.

As of September 30, 2024, we had cumulatively returned US\$361.1 million and US\$325 million to our shareholders in the form of share repurchases and dividend distribution, respectively, for a total return of US\$686.1 million to our shareholders, underscoring our strong commitment to enhancing shareholder value.

In summary, our robust results for the third quarter demonstrate the effectiveness of our Local Excellence, Global Outlook Strategy, empowered by our agile business model and technological advantages. Given consumers' growing confidence in an accelerating economic recovery, we believe our operations will continue to build positive momentum throughout the remainder of the year.

We will remain committed to seizing the global market's vast opportunities and sharing our achievements with all stakeholders through sustainable business growth and a strengthening capital return program.

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

Questions and Answers

Operator: Thank you. (Operator Instructions). Alex Ye with UBS.

Alex Ye: So my first question is on China business. So we have seen your loan volume was up by 7% Q-on-Q. So the growth has rebounded from 1% Q-on-Q last quarter. So I'm wondering what drove the loan volume pickup during the quarter? Is that an industry-wide trend? And then also going to Q4, have you seen any sort of pickup in credit demand and loan allocation in October and November?

And secondly is on your international business. So after the price ceiling adjustment this year, do you expect a further decline into next year? And then also, we also see this continued investment in sales and marketing and other expenses. So I'm wondering when do we expect to see the Indonesian business to start generating more meaningful profits?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Alex, let me do the translation for Alexis. Since the second half of 2023, the industry has experienced some cyclical fluctuations, and the industry is facing the challenges of a size reduction. However, FinVolution, with its steady risk performance, has still managed to achieve a growth rate of above 4% in transaction volume for the first 9 months of the year, with transaction volume in the third quarter reaching RMB49.5 billion, up 6.7% sequentially.

And during the third quarter, from two different perspectives, number one, we have observed that customer applications has increased compared to the second quarter, reversing the trend of continuous weak applications during the first half. Customer application in the third quarter increased by 12% sequentially. And another view is that the continued investment in new customer acquisitions enable us to have a leading status in the industry.

Historically, our percentage of new customers have constantly been above 10%. And during the third quarter, this percentage further grew to 14%, reaching 400,000 new borrowers. Investment in high-quality borrowers is critical for us to achieve continued growth.

I believe you guys have also noticed the stimulus package announced in late September. We have observed that the daily transaction volume has shown some improvement along with an increase of around 10% in application rates. And entering into late October, customer application has gradually slowed down and returned to the September levels, but still it has shown a significant improvement compared to the first half of the year. And we believe the trend exhibited in the third quarter is able to continue into the fourth quarter.

The September end bolder-than-anticipated stimulus greatly motivated us. It provides us with greater confidence regarding the development of our China market. As you know, we have been maintaining high-quality growth in our China market, and through continued investment in areas such as customer acquisitions and user experience. We believe the impact of such investment will be multiplied as the stimulus package gradually materializes. And during this period, we all should have some patience.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Okay. Alex, let me do the translation for this question as well. In 2024, we have been through a price reduction process from 0.4% to 0.3% on a daily basis. And we have completed the transition to better-quality borrowers and upgrade our credit risk assessment models in merely 5 months. Transaction volume has since resumed growth and up by 10% sequentially.

And throughout these several rounds of price reduction, we have accumulated sufficient experience in handling interest rate reduction. And currently, we didn't receive any notifications for further price decline. We are still operating at the current level of 0.3%, although there might be further information in the fourth quarter. And under the stable pricing environment, we believe we are able to contribute more meaningful profits for Indonesia business, for the cash loan business.

Operator: Thank you. Cindy Wang with China Renaissance.

Cindy Wang: (Speaking foreign language). I have two questions here. First one is the funding cost has been lower 190 bps this year. Do you think is there any room to improve in fourth quarter?

And second question is the number of the new borrowers in the international market has surpassed China for the second consecutive quarter. So can you talk about your Indonesia and Philippines customer acquisition strategy and customer acquisition cost? And how would that impact your sales and marketing expenses?

Tiezheng Li: (Speaking foreign language).

Jimmy Tan: Hello, Cindy. Let me do the translation for Tiezheng. I believe you guys have seen that our funding cost in China has improved a lot since the beginning of the year, reflecting the market recognition in our technologies and asset quality. We believe there is still room for improvement in the fourth quarter. However, the improvement rates might be smaller compared to the remaining of the year.

Tiezheng Li: (Speaking foreign language).

Jimmy Tan: Hello, Cindy, let me do the translation. As mentioned by Tiezheng, we have spent the first 5 months to transit to better-quality borrowers in Indonesia and has since resumed growth in the third quarter. And along this process, we have been expanding our base of local funding institutions, and now we have been working with seven different partners such as SEA Bank, OCBC, Bank JAGO, and among others. All our loans facilitated in Indonesia are facilitated by these local players.

We have also acquired a multi-finance license validating the recognition and trust from local regulators. We have also established cooperation with renowned local partners such as OPPO and Wook. And you have also noticed that our customer growth has been very robust in both year-over-year and Q-over-Q growth. And take rate is also stable, and like Alexis mentioned, there will be much more meaningful profit in 2025.

Tiezheng Li: (Speaking foreign language).

Jimmy Tan: Hello, Cindy, let me do the translation. The Philippines macro is robust and we have achieved great operational results. For example, we have established strong partnerships with local financial institution such as SEA Bank, Union Bank and Maya Bank. And today, about 60% of our loans are being facilitated through local financial institutions.

In addition, we have established strong cooperation with local partners such as TikTok Shop, and today, around 20% of our transaction volume is facilitated through them. And we expect it to grow further in 2025. The business operations performance in Philippines is above our expectation with strong growth both in year-over-year and Q-over-Q comparisons. And also, we expect Philippines operations to contribute profits in 2025.

Tiezheng Li: (Speaking foreign language).

Jimmy Tan: Cindy, let me do the translation for this one as well. Okay. Since entering the international market in 2018, we have been doing international business for 7 years. And as you can see, all along these years, our operational metrics such, as risk, customer

acquisition, has all been improving. And currently, the revenue contributions for international operations have reached around 20%.

We have also been proactively planning and deploying resources into more new countries, and we'll share more when there is more concrete news. Some of the ideas is that when we enter into a new country, we will focus on the cash loan first, and then adapt to local regulators' regulations, and eventually upgrade to better borrowers.

And secondly, we will then adapt into loans with consumption scenarios, and by 2030, we have a target of achieving 50% of our revenue from international business and provide more borrowers with better services.

Operator: Thank you. Yada Li with CICC.

Yada Li: (Speaking foreign language). Then I'll do the translation. The question is regarding the shareholders' return. Do you expect to deliver more value to the shareholders in 2025? And how the company balance also the growth and total shareholders return? That's all.

Tiezheng Li: (Speaking foreign language).

Jimmy Tan: Hello, Yada, let me do the translation. The company has prioritized the long-term return of shareholder value. On one hand, we are creating value through rapid sustainable growth of our business. On the other hand, we have established a leading capital return program consisting of share repurchases and dividends. And since 2018, we have launched our dividend and repurchase program for 6 consecutive years, the earliest in the industry.

During this period, we have cumulated return RMB680 million to our shareholders, which is around 43% of our market cap. And during the third quarter, we have deployed US\$24.3 million for share repurchases, up 24% year-over-year. And for the first 9 months of the year, we have cumulatively repurchased, deployed US\$81 million, up 23% from the same period last year. And we have already utilized 75% of our third share repurchase program by the end of October.

Also returning value to shareholders through high-quality growth in both international markets and China markets is in line with our principle to maintain high-quality growth. And also, we are confident of distributing dividends at a stable growth rate for our shareholders.

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

Jimmy Tan: Hello. Thank you all for joining our earnings conference call today. If you have any further questions, please feel free to contact our Investor Relations team. Thank you all. Have a nice day.

Operator: Thank you. This concludes this conference call. You may now disconnect your line and have a wonderful day.