

X Financial (XYF)
Q4 2020 Earnings Conference Call
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Executives:

Tanya Wen, Investor Relations
Simon Cheng, President
Frank Zheng, Chief Financial Officer

Presentation

Operator: Hello, and welcome to the X Financial Fourth Quarter 2020 Earnings 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 Tanya Wen. Please go ahead.

Tanya Wen: Thank you, operator. Hello, everyone, and thank you for joining us today. The Company's results were released earlier and are available on the Company's IR website at ir.xiaoyinggroup.com.

On the call today from X Financial are Mr. Simon Cheng, President, and Mr. Frank Fuya Zheng, Chief Financial Officer. Mr. Cheng will give a brief overview of the Company's business operations and highlights, followed by Mr. Zheng, who will go through the financials. They are all available to answer your questions during the Q&A session.

I remind you that this call may contain forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current expectations and the current market and operating conditions, and relate to 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 and factors is included in the Company's filings with the U.S. Securities and Exchange Commission. The Company does not undertake any obligation to update any forward-looking statement as a result of new information, future events, or otherwise, except as required under law.

It is now my pleasure to introduce Mr. Simon Cheng. Mr. Cheng, please go ahead.

Simon Cheng: Hello, everyone. We are very pleased to close out 2020 with a substantial business recovery in the fourth quarter. Our top line saw a year-over-year growth, mainly driven by the recovery in the loan facilitation amount, which was almost back to the levels of the same period of 2019.

With unprecedented challenges due to the impact of COVID-19, I am very proud of our team in navigating the challenging environment after our business was significantly impacted. We also have successfully completed our business transformation from the P2P model to the loan facilitation model based on 100% institutional funding.

In February 2021, the China Banking and Insurance Regulatory Commission finalized guidelines on internet loan businesses by commercial banks with a clarification on capital limits in joint-lending and other requirements. The changes could be favorable for the industry in the long run, along with the Chinese government's work on the Anti-Monopoly Law, we believe all these initiatives will help to build a healthy and sustainable business environment for the online lending business, and provide more opportunities for qualified loan facilitators of a certain scale.

At present, some of our funding partners have been gradually adjusting the way they cooperate with us in order to comply with the new regulations. In the meantime, we will closely monitor regulatory developments and the evolving industry landscape, and adjust our strategies and services in compliance with government policies and market trends.

We are encouraged by the operational performance during the quarter that will help drive more growth in 2021. Driven by increasing demand for Xiaoying Card Loan, our flagship product, our loan facilitation amount of Xiaoying Card Loan increased by 16.8% quarter-over-quarter. And meantime, the total number of loans facilitated by Xiaoying Card Loan increased by 14.3% quarter-over-quarter. As of the end of 2020, our total outstanding loan balance of Xiaoying Card Loan reached RMB13 billion, an increase of 19.6% quarter-over-quarter.

In 2021, we will continue to optimize our product portfolio with a focus on Xiaoying Card Loan, which targets prime borrowers and has proven to meet customers' needs and fits better into our strategy to drive long-term profitable growth. By the end of 2020, we have also cleared all outstanding loans in our P2P business and exited all related P2P businesses.

In the meantime, we further strengthened our cooperation with financial institutions after we achieved 100% institutional funding for the new loans facilitated through our platform by the end of the second quarter of 2020.

Moving forward this year, we will continue to expand our cooperation with more financial institutions, especially regional funding partners to enable more geographic coverage of our loan product offerings. In the meantime, we will explore more opportunities to deepen our cooperation with existing funding partners by leveraging our proven capabilities in offering better products, technologies and risk management systems.

Looking ahead, our business recovery has continued to be driven by growing market demand so far this year. Leveraging our quality borrower base, cutting-edge risk management system, trustworthy brand and strengthened partnerships with financial institutions, we will continue to improve our top line and bottom line in the short term, and we believe we are on track to deliver long-term sustainable growth.

Now I will turn the call to Frank, who will go through our financials.

Frank Fuya Zheng: Thank you, Simon, and hello, everyone. We are pleased to announce solid growth in total net revenue and improved asset quality. Our total net revenue increased 28% quarter-over-quarter and 7.7% year-over-year. Taking advantage of big data and AI-driven technology, we are constantly improving risk control and asset quality, resulting in further improvements in delinquency rates.

As of December 31, 2020, the delinquency rates for all outstanding loans that are past due for 31 days to 90 days and 91 days to 180 days, dropped to 1.5% and 2.53%, respectively, the lowest level in three years. The improvement in our credit risk profile has brought a significant decrease of RMB62 million in the bad debt provisions for accounts receivable and loans receivable in the fourth quarter when compared with the previous quarter.

In addition, we continued to expand our partnerships with third-party financial guarantee companies to further optimize financing costs for borrowers. During the fourth quarter, the proportion of the loan amount we facilitated covered by third-party financial guarantee companies increased to 38.8% from 25.3% in the previous quarter. We expect to increase the coverage ratio of third-party financial guarantee companies to over 50% in 2021.

In conclusion, our business profitability is expected to steadily improve in the first half of 2021 as we further improve our investments in the effective acquisition of high-quality borrowers and optimize our cost structure. We will continue to evaluate market conditions to capture more growth opportunities and increase our market share in the consumer finance industry.

Now I'd like to brief some financial performance. Total net revenue in the fourth quarter of 2020 increased by 7.7% to RMB716.3 million -- equivalent about US\$109.8 million -- from RMB665.1 million in the same period of 2019, primarily due to a change in the product mix with the increased loan facilitation amount of Xiaoying Card Loan, partially offset by a slight decline in total loan facilitation amount in this quarter when compared with the same period of 2019.

Origination and servicing expenses in the fourth quarter of 2020 increased by 30.8% to RMB550.7 million, US\$84.4 million, from RMB421.2 million in the same period of 2019, primarily due to the following factors: One, an increase in collection expenses resulting from more collection efforts made to address the increase of delinquency rate in the first half of the year due to the impact of COVID-19; and second, the increase in interest expenses as a result of an increase in payable to the institutional funding partners. Meanwhile, to better reflect the origination and servicing expenses incurred in connection with the loans facilitated through the Consolidated Trusts, the management fees paid to the third-party trust companies, amounting to RMB9.3 million compared with RMB7.9 million in the same period of 2019, have been reclassified from general and administrative expenses to origination and servicing expenses. These comparative figures have been reallocated to conform with the current period's classification.

Reversal of accounts receivable and contract assets in the fourth quarter was RMB13.2 million or US\$2 million, compared with the provision for accounts receivable and contract assets of RMB52.3 million in the same period of 2019, primarily due to a decrease in the estimated default rates.

Provision for loans receivable in the fourth quarter of 2020 was RMB33.7 million, US\$5.2 million, compared with RMB16.7 million in the same period of 2019, primarily due to an increase in loans receivable from the credit loans and the revolving loans.

Provision for deposits to institutional cooperators in the fourth quarter of 2020 was RMB970.3 million, US\$148.7 million, compared with nil in the same period of 2019. The Company collaborates with a number of institutions that provide guarantee for loans facilitated by the Company. The Company is required to pay deposits to such institutional cooperators, and the amount of deposit is separately agreed with each institutional cooperator. To maintain the collaborative relationship with one of its institutional cooperators, and to avoid any material adverse impact on the Company's current business model and future transaction cost, the Company used deposits amounting to RMB970 million to compensate for such institutional cooperator's loss for the amount it had paid under investors' claims arising from defaults by borrowers. The Company also assumed the right of subrogation and related rights against the defaulting borrowers, which were sold to a third party with the consideration of RMB10 million. The Company has recognized above loss of RMB960 million as impairment of the deposits and has also provided an allowance for impairment of RMB10.3 million for the potential losses of the remaining deposits.

Net loss attributable to X Financial shareholders in the fourth quarter of 2020 was RMB655.5 million, US\$100.5 million, compared with net income attributable to X Financial shareholders of RMB79.7 million in the same period of 2019.

Cash and cash equivalents was RMB746.4 million as of December 31, 2020, compared with RMB324.3 million as of September 30, 2020.

Now for our business outlook. Our business visibility has improved to a certain level. Therefore, we will provide quarterly guidance moving forward. For the first quarter of 2021, we expect total loan facilitations to be RMB10.9 billion, and the preliminary result of the net income attributable to X Financial's shareholders to be no less than RMB110 million. For the second quarter of 2021, we expect total loan facilitations to be in the range of RMB9 billion to RMB12 billion, and the net income attributable to X Financial's shareholders to be no less than RMB140 million. This forecast reflects our current and preliminary views, which are subject to changes.

Now, this concludes our prepared remarks, and we'd like to open the call to questions. Operator, please.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions).

This concludes today's question-and-answer session. I'd like to turn the conference back over to Tanya Wen for any closing remarks.

Tanya Wen: Thank you, everyone, for joining us on the call today. If you haven't got a chance to raise your questions, we will be pleased to answer them through follow-up contacts. We look forward to speaking with you again in the near future. Thank you.

Operator: Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.