

X Financial (XYF)
Q2 2021 Earnings Conference Call
August 10, 2021, 07:00 AM ET

Executives:

Tanya Wen, Investor Relations
Kent Li, President
Frank Fuya Zheng, Chief Financial Officer

Analysts

Mason Bourne, AWH Capital

Presentation

Operator: Hello, and welcome to the X Financial Second Quarter 2021 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 today, and are available on the Company's IR website at ir.xiaoyinggroup.com.

On the call today from X Financial are Mr. Kent Li, President, and Mr. Frank Zheng, Chief Financial Officer. Mr. Li 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 the Company's current expectations and current market and operating conditions and related 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. Kent Li. Mr. Li, please go ahead.

Kent Li: Hello, everyone. We are very pleased to deliver another strong quarter of operational and financial results. In the second quarter, total loan facilitation amount hit a historical high since our inception and our bottom line continued to maintain strong growth momentum on both a year-over-year and quarter-over-quarter basis, in line with our guidance.

During the quarter, we reduced the fees we charged for our loan facilitation service, which matches institutional funding partners with borrowers, as well as lowered the weighted average total borrowing cost for our loan products to attract and retain borrowers. With the effective management of our cost control policy, we continued to maintain strong momentum of profitable growth.

On the regulatory front, in April, the National People's Congress Standing Committee released a second draft of the Personal Information Protection Law for public comments, demonstrating that the Chinese government is determined to strengthen user data security and privacy protection. We have always placed a high value on user data protection, and continue to improve our self-regulated internal mechanism. We continue to closely monitor regulatory developments, and adjust our strategies and services in compliance with government policies and evolving market trends.

During the second quarter, our total loan facilitation amount reached RMB12.8 billion, an increase of 108.6% year-over-year and 18.2% quarter-over-quarter. This was mainly driven by the strong growth in the loan facilitation amount of Xiaoying Card Loan, which increased 180.1% year-over-year and 18.2% quarter-over-quarter. Xiaoying Card Loan has contributed 100% of our total loan facilitation amount since the first quarter of 2021. As of June 30, 2021, the total outstanding loan balance of Xiaoying Card Loan reached RMB20.4 billion, an increase of 24.9% compared with the previous quarter.

Recently, the Chinese government has been gradually introducing guiding principles for lower lending rates to the market to stimulate economic growth, which is expected to put some pressure on our revenues. For the second half of the year, we will continue to be fully compliant, but will mitigate policy pressures by devising feasible solutions with our institutional funding partners.

At the same time, we remain in active negotiations with existing funding partners to reduce funding costs. And our team continues to improve our risk management capabilities and take proactive measures on cost control.

In conclusion, we are encouraged by the solid progress we made during the first half of the year, and will continue to execute our proven strategy to drive sustainable long-term growth. We expect to commence operation of our microcredit business in the third quarter of 2021.

Consumer confidence in China's economy has continued to trend upward, and we see rising demand for consumer finance solutions. We are confident of leveraging our technology and service capabilities to capture the vast opportunities ahead and bring more valuable returns to our shareholders.

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

Frank Fuya Zheng: Thank you, Kent, and hello, everyone. We continued to deliver strong financial performance during the second quarter. Total net revenue increased 140.4% year-over-year to RMB932.4 million. With a combination of effective cost control and increasing economies of scale, our net income further improved to RMB223.2 million from a net loss of RMB343.6 million in the same period of last year and a net income of RMB192.8 million in the previous quarter.

We continue to experience steady improvement in our asset quality. As of June 30, 2021, the delinquency rates for all outstanding loans that are past due for 31 to 60 days was 0.77%, a decrease from 0.82% as of March 31, 2021, and 1.80% as of June 30, 2020, a clear demonstration of our risk management capabilities and premium borrower base.

We also continued to strengthen our cooperation with third-party financial guarantee companies during the quarter, whereby the proportion of loan amounts facilitated that was covered by these financial guarantee companies increased to 49.8% from 48.1% in the previous quarter.

Moving forward, we will continue to invest in the development of our technology capabilities, further improve operational efficiency and expand cooperation with more institutional funding partners. We expect to maintain the growth momentum in our operational performance in the third quarter.

Now I'd like to brief some financial performance. Please note that all numbers stated are in RMB.

Total net revenue in the second quarter of 2021 increased by 140.4% to RMB932.4 million from RMB387.9 million in the same period of 2020, primarily due to an increase in the total loan facilitation amount of the Xiaoying Card Loan this quarter compared with the same period of 2020.

Origination and servicing expenses in the second quarter of 2021 increased by 1.7% to RMB520.9 million from RMB512.4 million in the same period of 2020, primarily due to the increase in commission fees resulting from the increased total loan facilitation amount in this quarter compared with the same period of 2020, and partially offset by the decline in the collection expenses resulting from the decrease in delinquency rate.

Provision for accounts receivable and contract assets in the second quarter was RMB25.2 million, compared with RMB28.3 million in the same period of 2020, primarily due to a decrease in the average estimated default rate compared with the same period of 2020, and partially offset by an increase in accounts receivable from facilitation services as a result of the increase in total loan facilitation amount in the second quarter of 2021.

Reversal of provision for the loans receivable in the second quarter of 2021 was RMB1.1 million, compared with the provision for the loans receivable of RMB110.5 million in the same period of 2020, primarily due to a decrease in the average estimated default rate compared with the same period of 2020.

Income from operations in the second quarter of 2021 was RMB337.7 million, compared with loss from operation of RMB341.5 million in the same period of 2020.

Net income attributable to X Financial shareholders in the second quarter of 2021 was RMB223.2 million, compared with net loss attributable to X Financial shareholders of RMB343.7 million in the same period of 2020.

Non-GAAP adjusted net income attributable to X Financial shareholders in the second quarter of 2021 was RMB241.9 million, compared with Non-GAAP adjusted net loss attributable to X Financial shareholders of RMB325.9 million in the same period of 2020.

Cash and cash equivalents was RMB1,183.9 million as of June 30, 2021, compared with RMB799.8 million as of March 31, 2021.

Now for our business outlook. For the third quarter of 2021, we expect total loan facilitation amount to be in the range of RMB14.5 billion to RMB15.5 billion, and net income attributable to X Financial's shareholders to be no less than RMB230 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: We will now begin the question-and-answer session. (Operator Instructions). The first question is from Mason Bourne with AWH Capital.

Mason Bourne: You mentioned that you plan to start using your new micro-credit license in Q3. Could you describe the steps that you took to obtain that license, and then maybe what opportunities that opens up for you?

Kent Li: Sure. Actually, this is a very long progress and I think we firstly sent our application in the late 2019. The overall process has been fairly opaque, but finally we got it, and because there is really no fixed guidelines on how to obtain the license. But we are the first batch who were able to successfully repay all our P2P investors of their investment, and got the license.

You asked about opportunities. I think at this moment, the opportunities are fairly difficult to evaluate, and the management team is still in the early process in determining what is the best strategy of utilizing that license. As of now, we just began to offer loans through the license.

Mason Bourne: Okay, thanks. And then I guess to follow up on that, your total loan facilitation volume was up over 100% year-over-year, and now appears to be growing at a high-teens from Q1 and then also based on your guidance going forward. So with that, how large do you view your market opportunity? And What's driving that growth?

Kent Li: I think it's difficult to compare our growth with last year because of the Covid-19 situation in China, which is very different from the other countries around the world. Last year

was the worst in terms of Covid-19. And since then, we are basically in the recovering stage, and as a result, the last year, our loan volume has been severely withheld, and largely due to our own choices.

So right now, because Covid-19 -- I want to say has since long past the China, so the economy in the Chinese market has been fairly beneficial to our business. That is why we are able to maintain such strong growth. It's very difficult to forecast what our growth in the future will be, but if you're following the Chinese market closely, that you will notice that all the supervision committees have been gradually persuading those people who are not qualified to exit the market. And as a leading company in the Chinese market, we basically were able to maintain our continuous operations. So I think the opportunity is good. It's really because now the management team take advantage of the opportunities.

Mason Bourne: Great. And then the last thing I had -- so by my math now, book value per ADS is roughly 9.75. Shares are trading up a little bit this morning, but yes, 3.27 per ADS in cash now, and then an annual run rate of earnings, based on your guidance, is roughly 2.50 per ADS. So with that in mind, how do you think about capital allocation and potentially returning capital to shareholders or buying back shares?

Frank Fuya Zheng: Yes, I think we are still in the growth period, and for the micro-credit license at this stage -- actually, in November, we need to put another RMB500 million as capital. And I think that is still lower than that temporary capital requirements [to provide services nationwide], and the ruling is required for about RMB5 billion for that license. So we would put aside capital in case it needs another funding for the license purpose and or so.

For the foreseeable future, we don't have a stock buyback or something like that kind of thing for the near future, to answer your question directly.

Mason Bourne: So that would be going from -- I guess that would just be allocated at the restricted cash balance then? I was just thinking more to the cash and equivalents. But you're saying that more of that cash will be tied up due to this new license? Am I understanding that correctly?

Frank Fuya Zheng: Yes, yes.

Mason Bourne: Okay. All right. Well, that's all I had. Thanks for taking my questions. I'll pass it on.

Operator: (Operator Instructions). This concludes our question-and-answer session. I would like to turn the conference back over to Tanya Wen for any closing remarks.

Tanya Wen: Thank you, everyone, for joining us today on the call. 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: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.