

[FINV] - FinVolution Group
Q2 2025 Earnings Conference Call
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Executives

Tiezheng Li, Chief Executive Officer
Jiayuan Xu, Chief Financial Officer
Yam Cheng, Head of Capital Markets

Analysts

Alex Ye, UBS
Cindy Wang, China Renaissance
Dongping Zhou, CICC

Presentation

Operator: Hello, ladies and gentlemen. Thank you for participating in the Second Quarter 2025 Earnings Conference Call for FinVolution Group. 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, Yam Cheng, Head of Capital Markets for the Company. Yam, please go ahead.

Yam Cheng: Thank you, Rocco. Hi, everyone, welcome to our second quarter 2025 earnings conference call. The Company's 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 of 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 laws.

Finally, we posted a 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. Tiezheng, please go ahead.

Tiezheng Li: Thanks, Yam. Hello, everyone. Welcome to our earnings call. Following a solid first quarter of 2025, I'm pleased to share that FinVolution sustained its healthy momentum in the second quarter, supported by our robust growth in our international business and steady performance in China.

Net revenue reached RMB3.6 billion, up 13% year-over-year, driven by a 10% increase in transaction volume in China and a 39% surge in international transaction volume.

Net income also showed solid growth, reaching RMB751 million, representing an increase of 36% year-over-year and 2% quarter over quarter.

Since our transition to institutional funding model in 2021, we have now delivered 18 consecutive quarters of year-over-year growth in both transaction volume and revenue, a strong testament to our resilient business fundamentals in today's fast-changing macro landscape.

As discussed in last quarter's earnings call, regulations in China's consumer finance sector have been evolving. With the implementation of the new regulation of the Internet Loan Facilitation Business in October, we believe it may have implication to the loan mix and risk profile of the assets in the industry. And we are closely monitoring the latest developments and dynamics of the sector.

We maintain active dialogue with our funding partners, which expanded from 114 to 119 in the second quarter, to maintain relatively stable funding supply and prepare in advance for the potential impacts on our transaction volumes and risk metrics. Our risk infrastructure, tested across multiple economic and regulatory cycles, positions us well to adapt swiftly and effectively to these changes. In the long run, we view that these measures will ultimately foster more sustainable growth across the sector and benefit the leading platforms like ours.

Part of our resilient business hinges on the international operations, which offer valuable diversification benefit and growth. In the second quarter, international transaction volume increased 39% year-over-year to RMB3.2 billion, and loan balance rose 50% to RMB2.1 billion.

Notably, our international operations contributed 22% of net revenue, up from 18% in the same period last year.

Underpinning the growth is our expanding customer base. We onboarded 1.6 million new borrowers during the second quarter, a 96% year-over-year increase. This marked our fourth consecutive quarter surpassing 1 million new borrowers, thanks to our effective AI-powered marketing strategy and diverse user acquisition channels.

In China, the transaction volume from new borrowers reached RMB7.1 billion, up 20% year-over-year. In our international markets, we attracted 1.1 million new borrowers, up 126% year-over-year.

New borrower growth from our international markets also outpaced that in China for the fifth consecutive quarter. Fueled by diversified services we provide in the ecosystem through partnership with leading e-commerce and technology platforms, we expect this trend to continue.

On the technology front, we continue to leverage AI in our risk management. We have built effective defenses against sophisticated AI fraud like deepfakes, achieving 98.8% detection accuracy. Our proprietary visual AI analyzes background patterns, document authenticity, and pixel-level anomalies, resulting in 95% detection of digital artifacts in forged images. We combine this with multi-layered verification including dynamic facial recognition, randomized voice checks, and real-time video authentication.

Looking ahead, we are evolving from single-mode to multi-mode detection that simultaneously analyzes video and audio, keeping us ahead against evolving financial fraud.

ESG remains core to our long-term strategy. We published our seventh annual ESG report in July, underscoring our unwavering commitment to sustainable inclusive finance. Throughout 2024, we made substantial progress by combining technology innovation, process improvements, and ecosystem partnerships, particularly in enhancing our anti-fraud capabilities and optimizing service quality. These efforts have meaningfully advanced consumer protection, with our intelligent fraud prevention system now detecting over 7,000 suspicious activities daily.

In 2024, we've blocked more than 26,000 fraud attempts, protecting financial institutions from potential losses over RMB 300 million, while maintaining 98% user satisfaction rate.

Also worth noting, FinVolution Group secured two prestigious honors at the FinanceAsia 2025 Awards in June, the Best Strategic Initiative award for the Philippines as well as the Most Innovative Use of Technology award for Mainland China. This recognition affirms the positive value our fintech solution has brought to financial institutions across multiple markets.

Finally, an update on our capital market activity. We completed a US\$150 million convertible bond offering in June, the first capital markets transaction since our IPO in

2017. The funding will support our strategic priorities: accelerating international expansion and then lowering capital cost. The transaction also helped us diversify our investor base and deepen engagement with a broader group of investors. We are encouraged by the positive reception from the convertible bond investors, as well as the improvement in our stock's liquidity following the transaction.

In summary, our second quarter performance reflects outstanding execution of our Local Excellence, Global Outlook strategy. We are encouraged by the resilience of our China business and the strength of our international business. Bolstered by ongoing investments in technology, customer acquisition and international expansion, we are well-positioned to continue driving sustainable growth and delivering long-term value.

Now, I'll hand the call over to our CFO, Jiayuan Xu, for a closer look at our financials.

Jiayuan Xu: Thank you, Tiezheng. Hello, everyone. Let me go through our key results for the second quarter. I'll begin with our performance in China. Despite global trade tensions and macro uncertainty, China's economy demonstrated resilience that GDP expanded 5.2% year-over-year, exceeding market expectations.

Also, consumer sentiment improved on the back of a 4.8% increase in overall spending in June. It's encouraging to see continued regulatory support to increase credit supply for the consumer finance to boost economy.

Against this background, we delivered solid results in China. Our take rate remained stable at 3.4%, while the average loan tenor extended slightly to 8.3 months. Risk metrics stayed broadly stable, with day-1 delinquency rate rising 10 basis points quarter-over-quarter to 4.7%, while 30-day collection rate remaining steady at 89%.

We maintained our prudent approach to provision, supported by a healthy provision coverage ratio of 543%.

Turning to our international business, we drove continued growth despite the spillover impact from Ramadan in early Q2. Domestic macro indicators in our key Southeast Asian markets were largely stable, while the underlying consumer demand for credit remained strong.

Total international transaction volume grew 39% year-over-year and 6% quarter-over-quarter, surpassing RMB3 billion for the second consecutive quarter, while outstanding loan balance rose to RMB2.1 billion, up 50% year-over-year and 13% sequentially.

Unique borrowers soared by an impressive 122% year-over-year to reach 2.3 million, breaking the 2 million mark for the first time. As a result, revenue from international markets increased to RMB 797 million, up 42% year-over-year.

In Indonesia, while macroeconomic conditions showed slight moderation amid the tariff tensions, our business demonstrated strong resilience. We maintained momentum by offering longer-tenor products to higher credit quality borrowers, which drove better asset quality and an improving take rate.

We also continue to expand partnership with local platforms to acquire new borrowers. These initiatives delivered solid results. Loan volume grew 9% year-over-year, with outstanding loan balance increasing 25% to RMB 1.3 billion.

One important and encouraging update on Indonesia, at the end of July, the OJK, Indonesia's financial services authority, issued a new circular that keeps the daily fee cap for consumer funding unchanged from its 2024 level. This is a welcome development because it effectively replaces the previous policy, which would have required a 0.1% annual reduction in the fee cap through 2026.

This decision provides much-needed stability. It addresses concerns that further fee cuts could pressure revenue and profitability, and it ensures a healthier, more sustainable environment for our business going forward. We see this as a strong vote of confidence in the industry and a positive step for our long-term growth in Indonesia.

Our business in the Philippines continued to outperform this quarter. Business activity in the Philippines remained high nationwide, with an average PMI of 50.7. Thanks to ongoing regulatory support for digital finance innovation, as well as our brand awareness through effective marketing strategy, our loan volume more than doubled year-over-year to RMB1.4 billion, accounting for 45% of our international business.

Buy-now-pay-later products contributed 32% of volume, up from 13% in the same period of last year, driven by our collaboration with TikTok Shop and efforts to expand new platform partnerships. Moving forward, we are optimistic over the transaction volume growth in the Philippines as we deepen our market presence, broaden our funding partnerships, and diversify our business offerings to capture emerging opportunities.

Overall, our strong operational performance this quarter produced impressive financial results across the board. Net revenue reached RMB3.6 billion, reflecting robust year-over-year growth of 13% and a sequential increase of 3%. Net income also saw significant momentum, rising 36% year-over-year to RMB751 million, underscoring our ability to drive profitable growth.

Our financial position remains solid, with RMB7.9 billion in cash and short-term investments, providing ample liquidity to support our strategic priorities. We continue to maintain a prudent balance sheet, with a leverage ratio of 2.6x, defined as risk-bearing loans to shareholders' equity.

Finally, we continued returning capital to shareholders and have repurchased US\$63.8 million of shares in the first half of 2025, including repurchases made in conjunction with the convertible bond issuance in June. The CB proceeds to fund our international business will optimize capital cost and accelerate expansion.

In short, we maintained our strong growth trajectory through disciplined execution of our "Local Excellence, Global Outlook" strategy. We remain confident in our ability to adapt quickly to the evolving regulatory environment in China, while driving growth in untapped international markets. We believe the new regulation may foster a healthy development of the industry and benefit leading players' market share in the long term.

As such, we are reiterating our full year 2025 revenue guidance of RMB14.4 billion to 15.0 billion, a 10% to 15% year-over-year growth.

With that, I will now open the call for questions. Operator, please continue.

Questions and Answers

Operator: Thank you. (Operator Instructions). Cindy Wang with China Renaissance.

Cindy Wang: (Speaking Foreign Language). Congrats for the good result in second quarter. So I have two questions here. First, regarding new regulation on loan facilitation in China, how do you see the impact to your business? Would you slow down new loan volume in second half to adjust loan structure and ensure asset quality?

Second, the new loan volume in international market in second quarter maintained rapid growth. What is the current run rate in July and August? And is there any target customer profile change in Indonesia and Philippines in the second half?

Jiayuan Xu: Okay. Thanks, Cindy. Yes, I will take your questions. Your first question is about the new regulation in China. The new regulations on Internet loan facilitation business will come into effect in October 1st. We think it will provide more order to the industry and in the long run, promote the consolidation.

There might be some impact on the different types of assets right now, and for those high-priced assets, the funding supply has reduced. And the funding partners now become more cautious and selective on the cooperation with the platforms. They'd like to choose the platform which can bring the good economics, or have a manageable risk-reward. And for those high-quality assets where our core business is, liquidity and funding costs remain stable.

So the tightening of the industry, liquidity has introduced some challenges, but the overall impact to us remains manageable for three reasons. First, we have the knowhows for acquiring and operating the high-quality assets; we have long been focusing on the sourcing and the pricing high-quality assets from the information feeds channels. Now the funding market shifts to the high-quality assets, we should benefit.

And second, as proven in the previous credit cycle, we have been disciplined on risk management. Thanks to the efforts on the high-quality customer strategy and the continuously build the competitive capabilities, we saw the delinquency rate staying at a reasonable and manageable range. We will continue to dynamically balance the risk exposure and the transaction volume as we step into the second half of year. So we expect maybe the regulatory uncertainty will continue to weigh on the industry.

And third, our international business continued to be a growth driver and more important resource, a source of our diversification to our business. In the second quarter, as transaction volume increased by around 40% year-over-year and the revenue contribution surpassed 22%, we also see a better profitability trajectory than expected in our international markets. This structural growing trend in international markets provides a cushion to the short-term volatility in China market.

So in conclusion, we expect maybe a low-single-digit quarter-over-quarter decline in the transaction volume in the China market, but with a reasonable fluctuation in risk levels and largely stable take rate. So we are maintaining our full year revenue growth guidance of 10% to 15% subject to the industry not significantly different in the coming quarters.

And your second question is about our overseas business. Well, as we mentioned, in the first half of 2025, our international markets continued its very strong momentum, the transaction volume was up nearly 40% year-over-year and 11% quarter-over-quarter. And I'm very happy to share that this strong trend here is steady right into the July and August.

Based on our current trend, we are projecting both Indonesia and the Philippines to deliver the solid double-digit quarterly growth in Q3.

As for Indonesia, the most important update is on regulation. In the late July, the OJK confirmed its new interest rate policy. It will effectively maintain the interest rate cap, which we have been operating since the end of last year. The directive issued in 2023 was to reduce the interest rate cap gradually from 0.4% to 0.1% in 2026. With the latest circular, the reduction is revoked. This removal of the uncertainty is a huge positive for the entire industry and allows us to plan for the long term with much greater clarity. And in terms of the business, we are continuing to deliver the diversified product offerings.

As for our online cash loan, we proactively launched the marketing initiatives to go after better-quality customers in the first half-year. For example, we offered attractive terms and repayment flexibility to those high-quality customers to appeal to customer base we are able to reach. And for the offline front, we have acquired the multi-finance license last year. We are expanding into the offline installment scenarios like the smartphones, motor bikes and home appliance.

We have partnered with the major Chinese electronic brands and the local brands to offer offline installment loan options at the point of sale. While this business is still relatively small at the moment, we are quite confident it could be a market of very substantial potential.

And for the Philippines, it's our second-largest overseas market. It has been consistently exceeding our expectations as the macro-environment remains very favorable.

For our Buy-Now-Pay-Later cooperation with the TikTok Shop, it continued to be a very huge success. It's already contributed 32% of Philippines' total transaction volume, and its product line has already become profitable. Building on this success, we have recently expanded partnerships with other local telecom operator to fund phone credits with Buy-

Now-Pay-Later products. So with these partnerships, we aim to onboard a new customer base that we haven't served before.

Looking forward, we continue to expand and diversify the consumption scenarios and the partners' ecosystems to build our financial product metrics that covers the wider user base, to speed up the overseas business growth.

So look ahead to the second half of year, although the Philippines might experience some typhoon-related seasonal impact in Q3, we will stay prudent in our customer acquisition strategies. But given the powerful momentum from our ecosystem partners and our expanding product offerings, we are very confident in maintaining the growth trajectory for the full year. Okay. Thank you.

Cindy Wang: Thank you, very clear.

Operator: Alex Ye with UBS.

Alex Ye: (Speaking Foreign Language). I'll translate for my question. First question is about asset quality. So can you give us more color on the drivers for the Q-on-Q movement into your day-1 delinquency ratio and day-30 collection ratio? And how has been the trend you have seen in July and August? So are you concerned about the potential spillover risk for your core customer base from the current regulatory uncertainty?

Second question is about your overseas business. Can you walk us through how has been the development of your overseas business compared to a plan in the beginning of the year, in particular, given you have issued convertible notes in June, so how has that expected to be contribute to your overseas growth in the coming quarters? Should we expect the overseas growth to further accelerate from here?

Jiayuan Xu: Okay. Thanks, Alex. Yes, let me take your questions. Your first question is about the domestic business again, so let's wrap back to the domestic business. Well, overall risk level was largely in check in Q2, although we observed a moderate up trend in the July and August, we started to see the early spillover of the risk from high-priced assets to high-quality assets, but it remained under control as we preemptively manage the loan portfolio.

In Q2, our key risk metrics remained largely stable, as we mentioned, it also factored in the slightly long tenure of the portfolio in the quarter. The day-1 delinquency rate held steady at 4.7%. Our 30-day loan collection rate remained strong at 89%. The vintage delinquency rate was 2.5%.

In July, we saw a bit of upward movement. Our day-1 delinquency rate ticked up slightly by 20 bps to 4.9%. We moved quickly to adjust our risk management strategies, and by August, the day-1 delinquency rate has stabilized at 4.9% level and our 30-day loan collection rate held firm at around 89%.

But in view of the up trend of risk, we have proactively tightened our risk management in the following aspects. First, we reduced our exposure to the assets from those low-quality channels, which historical carries higher risk. And for those high-quality channels, maybe the information feeds channels, we further adopt a different credit strategy for our borrowers. For example, we reduced the credit limit to borrowers of the higher debt, offer better terms to borrowers of better credit score and removed the credit limit that are underutilized.

And in terms of the loan collection, we employed the AI technology to identify and alert high-risk borrowers who are in the early stage of the past-due, and set up the collection efforts accordingly.

So looking ahead, while we continue to be vigilant on risk for Q3 and Q4, we also have a risk buffer in place. Our provision coverage ratio has climbed to 543%, up significantly from 465% in Q1. So we will remain flexibility and adapt to the market dynamics. We are confident to stay constructive over the long-term development of the industry and the position of the leading platforms. So that's for your first question.

And your next question is about the overseas business and the impact of the convertible bonds. Well, regarding our international performance, as we mentioned, the first half of the year has played out very much as we expected.

The transaction volume hit RMB 6.2 billion, up 38% from last year. The outstanding balance grew to RMB 2.1 billion, a 50% increase and the revenue reached RMB 1.5 billion, up 30% and now making up 21% of the group's total revenue.

The funding cost in international markets has held steady, and we have continued to deepen relationships with more financial institutions. As we mentioned before, we are focused on attracting high-quality borrowers in Indonesia, where we have seen a 15% improvement in credit cost comparing to the start of the year. The credit cost in the Philippines has held steady. This has driven a steady improvement in our take rate.

On top of that, the recent removal of the regulatory uncertainty in Indonesia could normalize the liquidity and provide us the stable environment to execute the consistent customer acquisition and our risk pricing strategy going forward.

And for our new markets, such as Pakistan, after we get the NBFC (non-banking finance company) license last year, we just recently secured a Buy-Now-Pay-Later license in July, and can make us the first fintech platform that can operate both online and offline, representing a powerful endorsement from the regulators. Now our plan is to roll out more diversified consumer finance product offerings to serve our customers throughout their lifecycles.

Finally, I want to touch on how we are funding this growth. Our US\$150 million convertible bond issuance in June was a strategic move. We used around US\$61 million for concurrent buyback, and the rest is gradually deployed to fund our international business.

Our average overseas funding cost is about 12% comparing to the 2.5% coupon from the CB, that's roughly 10% potential savings from the working capital management perspective. So on top of that, this CB funding gives us more flexibility on funding cost when we engage with the local funding partners.

All this positive development, together gradual use of the CB funding, led us to expect better profitability from our international business. We now expect the profit contribution from our international business of no less than US\$15 million this year, up from our prior estimate of US\$10 million. Okay. Thank you, Alex.

Operator: Dongping Zhou with CICC.

Dongping Zhou: (Speaking Foreign Language). And let me translate. And I would like to inquire about the company's future shareholders' returns' progress. We noticed that the company has repurchased about US\$63.8 million in shares during the first half of this year. And I wonder if you could give me some color on the future progress of the repurchase?

And in addition, the company previously raised the year's dividend payout ratio to the range of 20% to 30%. Is there a more specific dividend ratio plan available for disclosure to the shareholder at present? That's all.

Jiayuan Xu: Okay. Thanks, Dongping, I will take your question. Well, return capital to our shareholders is always a very important strategy for us. We were the first in our industry to launch the capital return program back in 2018, and since then, our commitment has been substantial. We have cumulatively returned approximately US\$830 million to our shareholders, representing around 35% of our current market cap.

And regarding the two pillars of the return, the dividend and the buyback, first for the dividend, we are deeply committed to a growing dividend. Our DPS reached US\$0.277 for 2024, up a strong 17% year-over-year. That actually marks our fifth consecutive year of growth with an impressive 18% CAGR.

And this year in March, our Board approved a significant upgrade to our dividend policy, moving from a minimum of 10% of net profit to a new range of 20% to 30% annually. Given this enhanced policy and our performance, we will track the DPS growth rate to ensure a sustainable dividend growth strategy. Second, as for the share repurchase, we see the buybacks as a powerful and complementary tool. We had our US\$150 million buyback program in place until March 2027. In the first half of the year, we have repurchased US\$63.8 million, representing a 12% increase year-over-year.

So we believe this new buyback and upgraded dividend policy send a clear message. We are committed to returning capital to our shareholders, and a sign of our confidence is sustained growth, profit potential and expanding the international presence. Okay. Thanks.

Operator: This concludes our question-and-answer session. I would now like to turn the call back over to management for closing remarks.

Yam Cheng: All right. Thank you. Thank you once again for joining us today. If you have any further questions, feel free to contact our IR team. Thank you again for joining.

Operator: The conference has now concluded. Thank you for your participation. You may now disconnect your lines.