[FINV] - FinVolution Group
Q1 2024 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
Thomas Chong, Jefferies
Alex Ye, UBS
Hannah Han, Nomura

Presentation

Operator: Ladies and gentlemen, hello, and thank you for participating in the First 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'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 first 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 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're happy to speak with you today.

We kicked off 2024 with continued strong execution of our Local Focus, Global Outlook strategy in line with domestic and international macro trends. China's economic recovery is progressing gradually, while Indonesia and the Philippines are growing more vigorously. There has been a pickup in economic and consumption activities during China's recent holidays, but the M1 financial data in April turned negative year-over-year, sending mixed signals to the market. Bearing such situation in mind, we will continue to closely monitor the macro environment, while leveraging on our technologies to increase the efficiency of our operations.

Driven by our Local Focus, Global Outlook strategy, we have served around 31 million borrowers across China, Indonesia and the Philippines as of the end of the first quarter of 2024. Our first quarter's performance highlights our strategy's effectiveness as well as its flexibility. Transaction volume in China reached RMB46 billion, up 10% year-over-year, while outstanding loan balance increased to RMB64 billion, up 4.4% year-over-year.

Notably, our ongoing investment in information feed advertising drove further expansion in the number of new borrowers in the China market, up 3% year-over-year, accounting for 20% of unique borrowers. Transaction volume from new borrowers contributed around 15% of total transaction volume, reflecting potential for our continued progressive growth in the China market.

Meanwhile, we leveraged our leading technologies, strategic agility and deep experience to overcome various challenges facing our Indonesian operations since last quarter and delivered solid growth in our international markets. International transaction volume reached RMB2.21 billion, up 41% year-over-year, while outstanding loan balance expanded to RMB1.27 billion, up 34% year-over-year, demonstrating our ability to capture opportunities in different countries.

Driven by our effective social media strategy, the number of our new borrowers in international markets increased by 13% year-over-year and represented 41% of unique borrowers.

International business stands as our second growth driver and its revenue contribution has been increasing steadily. For the first quarter, revenue from international business reached RMB595 million, up 33% from the same period last year and representing 19% of total revenue. Going forward, we believe this segment's contribution to revenue will continue to increase as we strengthen our existing markets and expand into new territories.

We also continued to make and drive progress on the technology front in the first quarter of 2024. In February, our extensive collaborations with leading global academic institutions produced three papers, which were selected for the 38th Annual AAAI Conference on Artificial Intelligence, one of the world's top artificial intelligence conferences with an acceptance rate of just 24%.

Through our ongoing investment in Large Language Models, we have self-developed a proprietary technology called X-Coder. It increases our programmers' efficiency through auto software bug detection and auto revision of frequently used codes, which greatly reduces human error. We have also utilized AIGC to streamline advertising costs and increase efficiency, producing more than 20% of video content with AI for vivid and precise advertising that resonates with our target borrowers while reducing marketing costs.

On a related note, we leveraged our advertising, social media influence and video content to expand our brand awareness in our international markets on popular channels such as Facebook, Tik Tok and Instagram. Our followers reached 1.1 million, 855,000 and 234,000 on those sites, respectively, during the first quarter of 2024, up 87%, 55% and 10%, respectively, year-over-year.

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 first quarter, bolstering the gradual and sometimes fragile recovery. We facilitated a total of RMB13 billion of loans for small business owners, up 26% year-over-year.

Furthermore, we made additional strides with our public welfare program aimed at improving farmers' livelihoods through the livestreaming of agricultural products, created in collaboration with China's national weightlifting team. This initiative has attracted over 2 million viewers and increased farmers' incomes with more than 2,000 online transactions.

In summary, we made most of the first quarter's positive through leveraging on our technologies and increasing efficiency. Firm execution of our Local Focus, Global Outlook strategy, ongoing tech innovation and deep dedication to our vision of financial inclusion propelled our steady progress and long-term sustainable growth. We will remain committed to fostering inclusion, accessibility, and technology as we create value for stakeholders and deliver better financial services to borrowers throughout the Pan-Asian region.

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 first quarter 2024 earnings call. Let's go through our key results for the first quarter. To be mindful of the length of our earnings call today, I encourage listeners to refer to our first quarter earnings press release for further details.

As Li mentioned, China's recent macro data, coupled with the economic activities during the holidays, reflect China's slower-than-expected economic recovery, with a few bright spots that are outpacing the overall trend. China's GDP expanded by 5.3% in the first quarter compared to the same period last year and by 1.6% compared to the previous quarter.

In March, China's manufacturing activity expanded for the first time in 6 months, with the manufacturing PMI reaching 50.8 points, up 1.7 points month-over-month. Non-manufacturing PMI rose to 53 points, boosting composite PMI to 52.7 points, up 1.6 and 1.8 points month-over-month, respectively. All three indexes are within the expansion range, indicating an acceleration in enterprise production and operational activities.

The Consumer Confidence Index improved to reach 89.4 points in March, but still hovering at relatively low levels.

As Li mentioned, transaction volume in the China market grew 10% year-over-year with an annual increase in the number of new borrowers, reflecting our commitment towards progressive growth in China's market. Our average borrowing rate in the first quarter remained stable at IRR 22.3%, validating our commitment towards financial inclusion.

Capitalizing on our strong presence and reputation for reliability, we grew our cumulative number of funding partners to 102 institutions during the quarter. This broad base, coupled with China's recovering economy, boosted our funding partners' confidence in facilitating loans for better-quality borrowers, improving our funding cost by an additional 50 bps on a quarterly basis. Looking forward, we are confident to achieving continuous optimization in our funding cost throughout the rest of the year. Furthermore, we have made great strides in our ABS issuance initiative, which will further diversify our funding source.

Regarding risk, we expect our vintage delinquency to remain stable at 2.5% for the first quarter. Meanwhile, we drove an improvement in our recent April Day-1 delinquency to 5.2% through a shift in our loan collection strategy. Loan collection recovery rate towards the end of the first quarter stood at a healthy range of 86%.

Turning now to our international expansion, our crucial second growth driver. During the quarter, the cumulative number of borrowers for our international markets exceeded 5 million, reflecting our commitment to promoting financial inclusion across all the markets in which we operate. In our first international market, Indonesia, the economy remains robust, with GDP growth of over 5% in 2023 and further increase to 5.1% in the first quarter of 2024, driven by resilient domestic consumption and the increasing investment.

Furthermore, Indonesia's PMI has consistently remained above 50 points for the past 2.5 years, indicating a strong position in the expansion zone. In March 2024, PMI increased by another 1.5 points to reach 54.2 points. Sales of motorcycles, a primary means of transportation in Indonesia, increased 4.5% month-over-month in March to 584,000 units.

We are also glad to share that by leveraging our proven experience and technologies in the transition to better-quality borrowers in the China market, our operations in Indonesia have largely overcome the recent challenges posed by interest rate adjustments. We will continue to actively monitor regulatory developments and refine our operations accordingly.

In the Philippines, our second international market, the government has forecasted a GDP growth rate of between 6% to 7% for full year 2024. Its PMI index has remained in the expansion zone for 8 consecutive months and the unemployment rate remained low at 3.9% in March 2024. This further bolstered consumption, with growth in household consumption accelerating to 5.3% in the fourth quarter of 2023, up from 5% in the previous quarter. All these positive macro metrics support our strong growth momentum in the Philippines market.

Overall, our performance in international markets remained solid for the first quarter of 2024. Transaction volume for the international markets grew 41% year-over-year to RMB2.21 billion, while outstanding loan balance grew 34% year-over-year to RMB1.27 billion.

Number of unique borrowers in international markets was 849,000, up 15% year-over-year, while number of new borrowers reached 344,000, up 13% year-over-year. These results highlight borrowers' stickiness on our platform, as well as our ability to acquire additional new borrowers through diversified channels with strengthened social media awareness.

Notably, our Philippines operations continued to outperform expectations, with transaction volume growing 194% year-over-year and 27% sequentially, contributing 25% of international transaction volume. This outstanding local performance has been widely recognized by regional financial institutions, attracting reputable local funding partners such as SeaBank and the UnionBank. Notably, we have entered into a transnational collaboration with SeaBank to facilitate loans in both our overseas markets.

Our credit facility from these two partners in the Philippines alone totals nearly 650 million pesos, greatly enhancing our presence in the country and facilitating our efforts to promote financial inclusion. Looking ahead, we are confident we will continue to attract reputable financial institutions to join us in the quest to advance financial inclusion in the country. As we strengthen our presence in the Philippines and gain greater recognition from local partners and regulators, we believe our Philippine operations will assume a bigger role in our international business.

Now, turning to our financial metrics. Driven by strong execution of our Local Focus, Global Outlook strategy, total net revenues for the first quarter grew to RMB3.17 billion, up 4% year-over-year. Our net income was RMB532 million, an increase of 1% quarter-over-quarter, reflecting our increased operating efficiency.

Meanwhile, sales and marketing expenses increased by 13% year-over-year to RMB449 million as we continued to strengthen efforts to acquire new borrowers in both our China and international markets.

Furthermore, leveraging our unparalleled industry expertise and the operational efficiency, we have achieved an above-industry ROA of above 3%. Our leverage ratio, defined as risk-bearing loans divided by shareholders' equity, remained stable at 4x, reflecting opportunities for growth when the macro economy normalizes.

Our total liquidity position, consisting of cash and cash equivalents plus short-term investments, reached RMB8.5 billion, up 10% from a year ago, reflecting a robust balance sheet that is well able to support our business growth, exploration of new opportunities and consistently return value to our shareholders.

Finally, a brief update on our capital return program. As part of our commitment to consistently return value to shareholders, we deployed over US$27 million in the first quarter of 2024 to repurchase our shares on the secondary market. Cumulatively, we have returned a total of US$632 million to our shareholders through our capital return program since 2018, demonstrating our consistent and sustainable commitment to our shareholders.

The Company reiterates its full year 2024 transaction volume guidance for the China market in the range of RMB195.7 billion to RMB205 billion, representing year-over-year growth of around 5% to 10%. At the same time, the Company expects its full year 2024 transaction volume for its international markets 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 the questions. Operator, please continue.

Questions and Answers

Operator: Thank you. (Operator Instructions). Yada Li from CICC.

Yada Li: (Speaking foreign language). I will do the translation. I have two questions today, and the first one is about the international branches. I was wondering how to view the regulation, market competition and profit outlook in different regions, such as Indonesia and the Philippines going forward.

Secondly, if we take the asset quality trend and profit and the potential profit overseas into consideration, how to view the trend of take rate for this year and the future?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Okay. Hi, Yada, this is Jimmy, let me do the translation for you first. Okay. For the first question, let us do an overall recap on the international market situation. We have been doing our Indonesia market for 6 years, and for the Philippines market, we have been in operation for over 4 years. And in total, we have over 10 years of experience in doing international operations.

I would say that the international business has been growing very quickly with CAGR growth of 100% in revenue for the past 3 years. And revenue contribution from this segment has also reached 19% of total revenue, with total registered users reaching 26 million, representing 14% at group level. And the cumulative numbers of borrowers also exceeded 5 million, representing 17% at group level.

This international business is confirmed as the group's second growth driver, and as you know, there has been a cap adjustment earlier this year on the borrowing rates. And after 5 months of business adjustment, we have optimized our borrowers' cohort model and data assessment strategy to achieve stable operations. As a result, we achieved improvement in overall borrowers' cohort quality, average ticket size and repeat borrowing rates are up 10% and 5.6%, respectively.

The conversion rate for higher-quality borrowers increased with approved credit line increasing by 23%. And most importantly, our risk performance improved by 23% on a sequential basis. Our efforts have also been recognized by local financial institutions with the numbers of funding partners increasing to six. And from customer acquisition perspective, we have seen small and mid-sized platforms reducing the customer acquisition activities and we managed to reduce our acquisition cost by 10%.

And coming to take rate, after this round of pricing adjustment, we are confident to maintain take rate at around 10% in 2024. And this is similar to what we have in our take rate before the pricing adjustment. And in 2024, we expect our Indonesia business to realize profits of over tens of millions.

Jiayuan Xu: (Speaking foreign language).

(Translated). Hello, Yada. Coming to our Philippines market, growth in the first quarter has been rapid. Transaction volume in the first quarter reached RMB560 million, up 194% year-over-year and 27% sequentially, representing 25% of total volume in the international market. The regulations in Philippines are relatively stable, and our second quarter growth in transaction volume is expected to be triple-digit as well.

We have also attracted reputable financial institutions, such as SeaBank and Union Bank to be our funding partners of over 650 million peso of credit facility. And going forward, we are confident to continue our rapid momentum in the Philippines.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Yada, let me do the translation for this question as well. Although for the China market, there has been some fluctuation in our risk of assets last year, but the situation has been stabilized. And you can also see that we've a huge improvement in our funding cost of 50 bps in the first quarter; and going forward, in the second quarter, we expect this trend to continue. And this is why our take rate has slightly improved from 2.9% in the previous quarter to 3% in the current quarter.

And for our Indonesia market, the take rate has returned to a level of around 10%, similar to what it has been prior to the price adjustment. Okay. Thank you, Yada.

Operator: Thomas Chong from Jefferies.

Thomas Chong: (Speaking foreign language). My question is about how technology can improve asset quality and operational efficiency?

Tiezheng Li: Hi, Thomas. (Speaking foreign language).

Jimmy Tan: Hi, Thomas. Let me do the translation for our CEO. Technology is the core of FinVolution, and we have remained consistent investment in technology throughout the year. For example, we've consistently invested in R&D since our establishment with a cumulative R&D investment of nearly RMB3 billion since 2015. We have around 700 experts in R&D with 20% holding masters or doctor degrees.

And additionally, we've established long-term academic collaborations relationship with seven leading universities. And all these have led to continuous improvements in the aspects of operations and cost can be saved by our technologies . For example, in terms of customer acquisitions, we've invested over RMB2 billion in information feeds. And through the accumulations of billions of user data and strategies involving over 100,000 iterations, we have built competitive edge for us.

And more than 20% of our video content is now generated by AI. And this has reduced our video production cost about 60%. And cost-wise, we've also been deploying technology with our back-end operations, and thereby optimizing our internal operating efficiency. And in the first quarter alone, our revenue achieved a year-over-year growth of 4%, while G&A expenses, as a percentage of revenue, optimized to 2.6%. And during the period of pre-Covid to Covid, our G&A expenses, as a percentage of revenue was, 7.3%.

And in terms of labor efficiency, during the first quarter 2024, average revenue per employee increased by 8.4% year-over-year, and these are the benefits that we've achieved through our tech investment.

Operator: Alex Ye from UBS.

Alex Ye: (Speaking foreign language). So I noticed that in Q1 for our domestic business, we've seen the sequentially decline in number of new borrowers repeat borrowers, and the conversion ratio. I'm wondering, was that mainly driven by our price strategy and tightened approval or mainly from weakened credit demand?

And related to that, how do you think about the outlook going forward? How has been the credit demand trend in April and May? And was there any implication for our full year target?

Tiezheng Li: (Speaking foreign language).

Jimmy Tan: Hello, Alex, this is Jimmy. Let me do the translation for Tim. Okay. First of all, let us recap the China macro economy and the micro-credit industry that we are in. China economy presents a complex situation with GDP growth at 5.3% in the first quarter, along with a rebound in export and improvement in manufacturing PMI. However, I do note that there was also a rare contraction in social financing and M1, along with a decrease in social retail sales and weak consumer confidence. This is a rather mixed signal.

And for the industry in which we operate, we have also observed changes from the demand and risk. And overall, credit risk increased in the second half of 2023, and remained relatively stable in the first quarter, but the recovery is still slightly below our expectation. And demand was relatively stable in the first quarter due to seasonal factors such as Chinese New Year, but fluctuate when entering the second quarter, validated by mixed signal that we've seen earlier. And under this complex macro environment, FinVolution has implemented various strategies to counter this complex macro environment by enhancing our risk assessment model and patterning approval rates to ensure the overall stability of our risk metrics.

As Alexis has introduced earlier, our vintage delinquency has maintained stable at 2.5% with D1 delinquency rate at 5.2%, while loan collection recovery rate was at 86%. And leveraging our dual wheel effect of technology and operational efficiencies, we've seen a sequential decline of 50 bps and a year-over-year decline of 120 bps in our funding cost, while customer acquisition costs were optimized by 17% compared to the last quarter, and G&A expenses also decreased by 7% year-over-year. And all these measures enable us to achieve a stable take rate of 3%.

Our consistent investment in customer acquisitions, with in-depth focus on repeat customers, has led to a stable business growth. For example, 30% of our borrowers have maintained on our platform for more than 3 years. And over 80% of the loans were facilitated for repeat borrowers, effectively elevating pressures caused by fluctuating demand and tightening approval rates.

And looking ahead in 2024, China economy has some challenges, and also in our industry as well, but we've also seen some opportunities such as the stabilization of risk, funding cost improvement, enhancing efficiencies and a focus on repeat borrowers. And with all these measures that we've implemented, we are still confident to maintain a healthy level of growth amidst challenging macro environment.

Operator: Hannah Han from Nomura.

Hannah Han: (Speaking foreign language). Let me translate the question. Like my first question regarding the share repurchase program, could you give us more details on the current process? Also, does it mean to have a new plan to further increase in the shareholder value?

For the second question, we observed an increase in cash in Q1, and could you provide more color on the future plan on use of cash? And additionally, how does the company plan to increase operating efficiency?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Hannah, let me do the translation. For our share repurchase in the first quarter, we've deployed US$27.2 million, which increased by around 1 time compared to last year, and represent around 28% of total share repurchase amount last year. And we still have remaining quota of US$93 million for our buyback program, and we've also completed our annual dividend distribution of US$62 million. And coupled with our share repurchase of around 100 million for the year of 2023, the total payout ratio was around 49% of net income.

And for share purchase and dividend, we've been doing it consistently for the last 6 years, and have returned around US$630 million for our shareholders. And going forward, we will continue to create long-term value for our shareholders through high-quality growth and a leading capital return program through a combination of dividends and buybacks.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hannah, let me do the translation for Alexis. Okay. First of all, we need to ensure sufficient cash for the development of our business, especially our international business growth has been very rapid. Our Indonesia business, after the cap adjustment has maintained healthy take rate, whereas Philippines is also growing at a very fast momentum.

And in terms of local licenses, we've achieved significant progress in all our markets, that we intend to have more local licenses. And we will share more when there is more concrete information is available. And coming back over the last 6 years, we have cumulatively returned US$630 million to our shareholders, which is around half of our current market cap. And we are confident to maintain a healthy return to our shareholders while delivering high-quality growth in our business. Okay. Thank you, Hannah.

Operator: Thank you. There are no further questions at this time. I'd like to turn the call back over to management for closing remarks.

Jimmy Tan: Thank you once again for joining us on our conference call. If you have any further questions, please feel free to contact FinVolution Group Investor Relations team. Thank you, everybody.

Operator: This does conclude our conference call for today. You may now disconnect your lines. Thank you.