[FINV] - FinVolution Group
Q2 2024 Earnings Conference Call
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Executives
Tiezheng Li, Chief Executive Officer
Jiayuan Xu, Chief Financial Officer
Jimmy Tan, Head, IR

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

Presentation

Operator: Hello, ladies and gentlemen, thank you for participating in the Second 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'd now like to turn the call over to your host, Jimmy Tan, Head of Investor Relations for the Company. Jimmy, please go ahead.

Jimmy Tan: Thank you, Allison. Hello, everyone, and welcome to our second 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. We ended the first half of 2024 on a positive note, driving progressive growth in the China market while maintaining our rapid growth momentum internationally. Through determined, strong execution of our Local Excellence, Global Outlook strategy, or simply LE-GO strategy, we made great strides across our business in the markets in which we operate.

Cumulatively, we have served around 31.5 million borrowers across China, Indonesia, and the Philippines as of June 30, 2024.

During the first half of 2024, transaction volume for the China market reached RMB92.5 billion, up 6% year-over-year. Transaction volume for the international market continued to grow rapidly, soaring to RMB4.5 billion, up 32% year-over-year.

In terms of outstanding balances, China reached RMB64.2 billion, while our international markets rose to RMB1.4 billion, up 3% and 27% respectively year-over-year. This stellar performance stands out as a testament to the effective execution of our LE-GO strategy and the unwavering commitment of our team.

Customer acquisition is a key element of our LE-GO strategy. We view it as an ongoing investment that will ultimately lead to a higher percentage of better-quality repeat borrowers and drive sustainable growth. During the second quarter, our number of total new borrowers reached 823,000, up 22% year-over-year and 15% sequentially, validating our ability to grow our business across different countries.

Notably, as we completed the transition to better-quality borrowers in Indonesia, and began to diversify our business model, the percentage of new international borrowers once again surpassed the percentage of new China borrowers. Furthermore, our number of new borrowers in the Philippines continued to grow robustly in the second quarter, increasing by 198% year-over-year and 69% sequentially.

Our effective social media strategy in the international markets also continued to yield positive outcomes. As of the end of the second quarter, our followers on leading social media platforms such as Facebook, Tik-Tok and Instagram, had risen to approximately 1.3 million, 850,000 and 240,000, up 41%, 30% and 8% year-over-year, respectively, validating the strong brand awareness and deep localization we have created in our overseas markets.

As a fintech leader, technology is deeply engraved in our DNA. It remains the core of our business and our primary competitive edge. During the second quarter, we hosted an internal tech competition called Hackathon, bringing together 60 R&D teams for a 36-hour session in a closed-door environment. Winning projects included Admin AI Bots, which can incorporate API function calls into large language models. Its framework can also be expanded to include multiple internal tools and support the management of different tools across platforms.

Another standout, E-sound, leverages AIGC to utilize fragmented time slots to increase productivity. We believe these projects demonstrate great implementation potential for enhancing our operations and overall efficiency.

Next, I'd like to share some updates on our ESG progress. We recently published our 2023 ESG report, the sixth in our Company's history, highlighting our dedication to transparency and sustainability. In 2023, we advanced our mission of leveraging innovative technologies to make financial services better, as well as our ESG strategy centered on technology, green principles and kindness.

In addition to giving back to society with innovative technologies, FinVolution emphasizes integrity and compliance, low-carbon development, and harmonious relationships with employees, partners, and communities in its ESG management efforts.

Moreover, we continued to support small business owners through the second quarter's challenges. During the second quarter of 2024, we cumulatively served around 415,000 small business owners and facilitated RMB14.2 billion of loans to nurture their dreams.

I also want to highlight our longstanding cooperation with the National Weightlifting team, and congratulate them on their recent wins at the Paris Olympics. We are proud to promote awareness of the sport alongside the team and leverage their public image to help small business owners increase their product sales.

Our joint initiatives embody our shared embrace of the Olympic values of excellence, respect and friendship, helping to create a better society for all. We will continue to integrate ESG management throughout our business operations and partnerships, propelling sustainable development across the industry.

Before we move on to our CFO's review of operational and financial metrics, I'd like to share that FinVolution celebrated its 17th anniversary during the second quarter, a milestone that inspires us to look toward our sustainable future. As such, we set our vision for 2030, to become an international fintech platform, connecting borrowers and financial institutions across multiple global markets, and leading the industry in each of them. We will remain dedicated to leveraging innovative technology to make financial services better and greener, sustainably propelling FinVolution's long-term growth.

To summarize, despite China's ongoing macro challenges, we successfully deployed our leading technologies and operational capabilities to achieve solid progress in the second quarter across all the markets in which we operate. Going forward, as China's macro environment improves, we are confident of resuming faster growth and delivering consistent returns across multiple metrics for all our stakeholders.

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

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

Despite China's 5% GDP growth in the first half of 2024, uncertainties still persist in the macro environment. Small-ticket items and tourism-related activities remained the bright spot with the May Holiday, 618 Shopping Festival and consumption-related index all showing signs of improvement. However, China's overall retail sales slowed to 2% growth year-over-year in June, which does not reflect an optimal recovery trajectory.

China's manufacturing PMI Index remained largely stable in July with manufacturing PMI holding steady at 49.4 points. Concurrently, non-manufacturing PMI and composite PMI both reached 50.2 points, which is within the expansion range, indicating Chinese enterprises' gradual production recovery. In short, although China's economy is recovering, there are still pockets of turbulence, which we will need to navigate using our vast experience and technological and operational prowess.

As Li mentioned, our performance in the first half of the year was solid, with transaction volume growth in both China and the international markets landing within our guidance range. This was supported by consistent excellence across numerous other areas, such as institutional funding, loan collection, and risk performance, among others. Let me walk you through some of the details.

During the second quarter, our average borrowing rate in China remained stable at IRR 22.2%, validating our strong commitment to advancing financial inclusion. Given financial institutions' growing desire to obtain good-quality borrowers for our platform, our funding cost improved significantly, shrinking another 90 bps during the quarter, and recording a cumulative improvement of 140 bps in the first half of 2024, leading to consistent improvement in our take rate. Such a huge semi-annual improvement in funding cost underscores financial institutions' deep trust in our credit risk assessment capabilities, and our ongoing enhancement of the quality of our borrowers. Given the quality of our borrowers and ample market liquidity, we are confident of achieving continued improvement in funding cost in the second half of the year.

Regarding risk management, the recovering economy and our agile adjustments to our credit risk assessment models drove progressive improvement in our Day 1 delinquency rate, which fell by 10 basis points sequentially to reach 5.1% for the quarter. From a vintage perspective, we maintain our view that vintage delinquency will stabilize at around 2.5%.

By refining our Responsive Payment Deduction strategy, we have enhanced the efficiency of our loan collection processes, resulting in an improvement in our loan collection recovery rate to 88%, up 200 basis points from the previous quarter. We expect this strong recovery momentum of loan collection will persist into the second half of the year. Furthermore, as we continue to optimize our operations, we have strategically adjusted our business portfolio to adapt to our partners' evolving requirements.

For the first half of 2024, transaction volume for our international markets reached RMB4.5 billion, up 32% year-over-year to reach the upper range of our guidance. Supported by a strong global macro environment and our effective LE-GO strategy, we believe our international business's growth momentum is sustainable with further diversification among different business models.

Moving on to our international expansion efforts. Indonesia, our first and largest overseas market, has shown continued growth in its macro economy throughout the first half of this year, with recorded GDP growth of 5.05% for the second quarter and targeted GDP growth of 5.2% for full year 2024. The Indonesian Consumer Confidence Index has remained high at above 120% for 18 months.

The volume of motorbike sales increased 26% year-over-year and 17% sequentially to 599,000 as of July 2024, further illustrating the nation's heightened consumer optimism. Beside a moderate correction to 49.3% in July 2024, Indonesia's Manufacturing PMI has remained above 50% since September 2021, reflecting nearly 3 consecutive years of sustained economic prosperity.

The unemployment rate decreased further year-over-year in March 2024, to 4.8% from 5.5% in the same period last year, further strengthening consumer confidence.

After 2 quarters of business adjustment towards better-quality borrowers under the new pricing cap, we are proud to share that we have stabilized our operations in Indonesia and continue to gain recognition from local customers and other stakeholders. This recognition has attracted new funding partners, including a leading local digital bank. We are also steadily building and strengthening our relationships with larger and more reputable local financial institutions to diversify our funding sources, thereby optimizing funding costs.

Next, our second international market, the Philippines. As of July 2024, its Manufacturing PMI has remained above 50% for 11 consecutive months. The Philippine labor market is also exhibiting positive momentum, with the unemployment rate dropping to 3.1% as of June, 2024 from 4.5% compared to the same period last year.

Furthermore, private consumption contributed 72.5% of the Philippines' Nominal GDP in the second quarter of 2024, reflecting robust domestic demand that will further support the nation's rapid economic growth.

Notably, our Philippines operation continued to outperform expectations, with transaction volume growing 140% year-over-year and 20% quarter-over-quarter to RMB674 million in the second quarter, representing 29% of international transaction volume. This outstanding performance reflects strong support from our local partners such as Seabank, Union Bank and Maya Bank, our latest funding partner, who recently partnered with us on a US$47 million program.

With sufficient funding in place, we believe we can maximize the benefits of our e-commerce cooperation with Tik-Tok Shop, acquire additional new borrowers from diversified channels and sustain continued high growth rate.

Now, turning to our financial metrics. This quarter's operational excellence led to better-than-expected financial results. Net revenue for the quarter reached RMB3.17 billion, up 3% year-over-year. Our net income was RMB551 million, a 4% increase quarter-over-quarter, underscoring our operational stability.

Meanwhile, sales and marketing expenses increased by 5% sequentially to RMB473 million, as we continued to invest in growth across all of our markets. As we restructured our business mix, our leverage ratio adjusted to 3.4x indicating opportunities for tremendous growth when the economy further recovers.

Our balance sheet remained robust with short-term liquidity maintaining its healthy level at RMB8.1 billion, reflecting our strength and flexibility in executing our LE-GO strategy to advance our international expansion and drive shareholder returns.

Consistently rewarding our shareholders remains a top priority for FinVolution, both through business growth across different markets and our market-leading capital return program incorporating share repurchases and dividends. Our first share repurchase program began in March 2018, shortly after our IPO in November 2017, and has been widely embraced by our shareholders. Our buyback history includes two repurchase programs with total deployment of around US$260 million. We are now conducting our third repurchase program of up to US$150 million.

Notably, in the second quarter, we deployed around US$30 million and repurchased 6.1 million ADS. For the first half of 2024, we have deployed around US$57 million for share repurchases. Our total cumulative share repurchase amount reached US$337 million as of the end of the second quarter.

In addition, our dividends have steadily increased over the past 4 years, with the cumulative dividend amount reaching US$325 million. In total, our capital return program has returned US$662 million to our shareholders, with the payout ratio rising to 49% of net profit in 2023. Going forward, we will continue to strengthen our capital return program for our shareholders.

In summary, our solid second quarter results showcase our LE-GO strategy's effectiveness, our nimble business model and our technological advantages. We expect our Indonesia operations to become profitable in 2024 and our Philippines operations to contribute profits in 2025, boosting our confidence in deploying a more proactive international expansion strategy. As we capitalize on the massive opportunities in the international markets, we look forward to delivering sustainable growth and sharing our success with all our stakeholders.

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

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Cindy Wang of China Renaissance.

Cindy Wang: (Speaking foreign language). I have two questions here. First question is, could you give us some color on the trend of your China borrowers' loan demand in the second quarter and also in July? And the second question is in Indonesia, your customer acquisition strategy after the APR meets the requirement. And any updates on the regulation front of the interest rate requirement in 2025?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Cindy, let me do the translation. Regarding China demand, during the second quarter, the trend of our borrowers' demand is largely in line with the weakness in residential credit demand. The daily application rate of repeat borrowers in the second quarter declined by mid-single-digit around 6% on an annual basis and quarterly comparison, reflecting weak consumer confidence. In July and August, we have observed that the application rate of our repeat borrowers has increased by mid-single-digit between 6% to 7%.

The demand of our borrowers is concentrated in the area of daily necessity. Therefore, when the economy is weak, it will show more resilience. And we expect demand will gradually improve in the second half of the year.

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

Jimmy Tan: Hello, Cindy. Let me do the translation. From the Indonesian macro environment, it is presenting a much more positive trend. After the Indonesian election, the political situations have normalized with an improving economy such as GDP increase. And let us concentrate on our performance in Indonesia. During the second quarter, transaction volume for Indonesian market reached RMB1.64 billion, up about 6.7% annually, with outstanding loan balance over RMB1.0 billion, up about 4% year-over-year.

Revenue for the quarter reached RMB430 million. Number of borrowers reached 530,000, up 4% sequentially, and number of new borrowers reached 200,000, up 9% sequentially.

We have cumulatively cooperated with seven financial institutions, and all our funding is from local financial institutions now. Our Indonesian operations has completed its pricing transition in just 5 months, and we have made adjustments in borrowers' cohort, model iteration and credit risk, as a result, credit risk has been improved by 28%, meaningfully offsetting the impact of interest rate adjustment. Therefore, our take rate returned to 10%, reflecting our business entering a more stable stage.

For the second half of the year and for the third quarter, we expect Indonesian operations will resume growth of over 10% sequentially, with transaction volume potentially reaching new record high. Indonesian online operations will remain stable, with credit risk, customer acquisitions improving consistently. For offline operations, we have completed the acquisition of a multi-finance license, with a controlling stake of 83.7%.

Going forward, we will proactively explore both online and offline channels, multi-products, buy now, pay later installments for different scenarios such as electronics products and electric bikes, etc. We will fully leverage our China expertise and leverage them in our Indonesian market to ensure future sustainable growth.

Hello, Cindy. Any more questions from you?

Cindy Wang: No more questions from me, thank you.

Operator: Yada Li of CICC.

Yada Li: (Speaking foreign language). I will do the translation. I was wondering, what's the plan and growth target for the company's domestic business? And I've noticed that the company has gained a slightly faster volume growth compared with the peers. And looking ahead, how likely the company can maintain such growth? And how does the company balance the volume growth and profitability? That's all.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Yada, let me do the translation for Alexis. As you know, China market has some changes this year, and it is very different from the previous years. And currently, the scale of China consumer market has slowed down and entered into a stage of increased competition. After the risk fluctuation in the industry during the second half of 2023, many players have experienced varying degree of earnings reduction.

Under the uncertain macro environment, we are searching for certainty that is beneficial for us and execute sustainable development in China. We have a few ways to achieve this. First of all, we have certainty for success on acquiring new borrowers through information feeds, leveraging on data and behavior characteristics. We continue to optimize the information feeds in China and improve the algorithms, and conduct joint modeling to enhance ROI.

And we are able to increase the accuracy in determining the lifetime value of our customers and maintain stable customer acquisition strategy. Transaction volume contributed by new borrowers was up 27% year-over-year, accounting for 13% of transaction volume in China market, up 2% year-over-year. Our percentage of new customers was between 12% to 15%. At the same time, we are able to have better cost control and a healthy LTV level.

Apart from information feeds in China, we are also actively diversifying our customer acquisition in China, and have found multiple new internet platform partners to work with us. In addition, we are also leveraging on our brand to influence our borrowers. For example, during the Olympics period, our support for the national weightlifting team has achieved tremendous success along with their wins at the games. Along with promoting a positive image for China Olympics, we have also gained remarkable results of over 100 million views and over 20 million counts of video traffic transmission.

And secondly, the management of repeat borrowers is a certainty for us. And we have over 17 years of operating history and we are very familiar with our borrowers. Through deeply excavating their diversified multi-layers and differentiated requirements, we will then refer them with the most suitable products based on different scenarios, such as user profiles and behavior characteristics. And all these have led us to increase our users' promotion impact by 36% in the first half, which leads to a higher transaction volume for repeat borrowers.

Thirdly, our business operations remain healthy with stable performance coupled with continuous improvement in funding costs, which leads to progressive improvement on multiple fronts such as take rates. All these ensure our high-quality growth, which is above the industry, and lay the cornerstone for our sustainable growth going forward. Okay, thank you, Yada.

Yada Li: (Speaking foreign language).

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

Alex Ye: (Speaking foreign language). So my first question is on asset quality. So we have noted that early indicators have improved in the second quarter. Just wondering what are the key drivers behind the recent trend? And should we be worrying about any potential uptick in NPR in the second half, like in the third quarter last year? And the second question is on the sequential trend on the take rate. What have been the key drivers behind? What is the outlook for the second half? And is there any more room for improvement for the funding cost?

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Alex. Let me do the translation. Regarding our overall asset quality, during the initial phase of the risk fluctuation last year, we leveraged on our years of experience, and made pre-emptively accurate predictions of the industry trends, tightened approval rates for riskier borrowers with higher debt, higher risk, and deployed different strategies for medium risk groups, and quickly adjusted the risk strategies during the early stages of delinquencies.

In the first quarter, risk performance stabilized. And we are one of the earliest platforms in the industry that are able to maintain risk at a lower level. During the second quarter, we further optimized, adjusted and iterated on the overall credit limit, and explored solutions for different types of users, while maintaining growth in transaction volume and balancing risk.

We have also shared that during the second quarter, our vintage delinquency remained stable at 2.5%, while Day 1 delinquency reduced by 10 basis points to 5.1%, and loan collection recovery rates improved 2% to 88%. We don't think the situation happened last year will happen in the second half as the overall environment is much more stable now.

I would like to share more information with you. Over the past 17 years in our operating history, industry-wide fluctuations in asset quality have occurred 4 times in our record. And such fluctuations on average last around 4 to 5 months, with the longest lasting 7 months and the shortest lasting 2 months. The fluctuation for this round is considered to be mid-term, and the fluctuation is smaller. Based on past recovery experience, the recovery process normally takes place at between 4 to 6 months. Therefore, the fluctuation this time is not unique, and has already shown signs of recovery. And we are confident to handle any more of such fluctuations in the future, based on our expertise.

Jiayuan Xu: (Speaking foreign language).

Jimmy Tan: Hello, Alex, let me do the translation. Regarding take rate, during the second quarter, our average borrowing rates remains at 22.2%. Funding cost optimized by 90 bps in the second quarter, while vintage delinquency remained stable at 2.5%. And take rate further improved to 3.1%. For the second half of 2024, we expect average borrowing rate to remain stable and funding cost and vintage delinquencies to have further optimization.

Our asset quality is popular in such environment, and we are one of the few platforms that are able to maintain healthy growth. This is the reason why we have more room to negotiate for better funding costs with our funding partners. Funding costs have continued to improve by 140 basis points in the first half, and improved by 90 basis points sequentially. And going forward, we still believe it will have room for further improvement.

Okay, thank you, Alex.

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

Jimmy Tan: Thank you once again for joining us today. If you have any further questions, please feel free to contact FinVolution Group's Investor Relations Team. Thank you all, and have a nice day.

Operator: This concludes this conference call. Thank you for joining. You may now disconnect your line.