CNFinance Holdings Limited
Q2 and First Half 2023 Financial Results Conference Call
Tuesday, August 29, 2023, 08:00 AM ET.

Executives:
Matthew Liu, Manager Investor Relations
Jun Qian, Director and Vice President
Jing Li, Acting CFO

Analysts:
William Gregozeski, Greenridge Global

Presentation

Operator: Good day, and welcome to the CNFinance Holdings Limited Second Quarter and First Half of 2023 Financial Results 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 Matthew Liu, IR Manager. Please go ahead.

Matthew Liu: Thank you, Kate. Good morning and evening. And welcome to the CNFinance second quarter and first half of 2023 financial results conference call. In today's call, our Director and Vice President, Mr. Qian Jun, will walk us through the operating results, followed by the financial results from our acting CFO, Ms. Li. After that, we will have a Q&A session.

Before we start, I would like to remind you that this conference call contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "target," "going forward," "outlook," and similar statements.

Such statements are based upon management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties, and other factors, all of which are difficult to predict, and many of which are beyond the company's control, which may cause the company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or 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.

Now, please welcome Mr. Qian Jun.

Qian Jun: (Speaking foreign language).

(Translated). During the second quarter and first half of 2023, the Company achieved year-over-year growth in major performance indicators. In the second quarter of 2023, the total loan origination volume was RMB4.5 billion, representing a year-on-year increase of 45%.

Total interest income was RMB430 million, representing a year-on-year increase of 5%. Net income came in as RMB44 million, representing a year-on-year increase of 142%.

In the first half of 2023, total loans originated was RMB8 billion, representing a year-on-year increase of 43%.

Total interest income was RMB 885 million, representing a year-on-year increase of 7%.

The net income was RMB93 million, representing a year-on-year growth of 52%.

In the first half of 2023, we focused on achieving high quality development and accomplished the following tasks. First, we continued to promote commercial bank partnership. Since the launch of commercial bank partnership model, it has gradually gained the recognition of the market and our partners, given its competitive price and high-quality borrower base.

After deepening the cooperation with private banks in the second half of 2022, the commercial bank partnership started to scale and has become an important part of the Company's business and source of income. In the first half of 2023, we originated loans of 3 billion under the commercial bank partnership, accounting for 40% of the overall loan origination volume, and the associated net revenue was RMB 50 million.

Second, we continued to reduce funding cost and achieved a breakthrough in the scale of funds raised to support sales partners who are obliged to repurchase delinquent loans. Under the current market condition, the Company continued to maintain dialogue with funding partners on lowering the cost, and optimizing the financing structure, and made positive progress. As of the end of the second quarter of 2023, the accumulated amount of funding raised to support sales partner's default repurchase was RMB700 million, which has helped to ease their liquidity pressure, and has provided strong support to further expand business.

Third, we continued to refine our credit decisioning mechanism. Since the beginning of the year, we have optimized our borrower assessment. We analyzed influential factors of historical defaulted borrowers, and started trial run of a risk control model procured from a well-established commercial bank. At the same time, we have strengthened the evaluation of collateral value by applying the property rating system. As of June 30 of 2023, the delinquency rate of loans originated by the Company was approximately 15%, down from 18% as of the end of 2022.

Currently, there are still uncertainties associated with China's economy and the downward trend of the real estate market has not been reversed. However, we believe that with China proposing to give full play to the role of both aggregate and structural monetary policy tools, and to vigorously support scientific and technological innovations, the real economy, as well as the development of SMEs, China's inclusive financial industry will continue to be in a period of strategic opportunity.

Against this backdrop, in order to overcome the challenges and seize the opportunities, we will continue to pursue high-quality development by coordinating growth of scale, asset quality and ensuring compliance, our plans include, first, we will focus on growth. In order to reach a wider range of borrowers, we will continue to improve our product mix, launch differentiated products with low interest rates, and leverage technology to empower sales.

Second, we refine credit decisioning mechanism and optimize asset quality. We will continue to shift our business to core areas in first-tier and new first-tier cities. In credit decisioning process, we will thoroughly evaluate the quality of borrowers, collateral and the sales partners who introduced such borrower. We will better manage sales partners and evaluate collateral to reduce the delinquency rate and continue to help sales partners release pressure.

Third, we will continue to invest in science and technology to empower our business. We are developing a big data model to enhance our capability to evaluate borrowers. We are working on making the risk control model procured more suitable to our business using historical loan data we have accumulated in the past 2 decades. Our developers have completed the preliminary research and are working on developing the system. At the same time, we are also looking for opportunities to collaborate with or invest in other fintech companies whose advantages could be synergistical with our business.

Fourth, we will strengthen compliance inspections and audits to further minimize compliance risks by means of routine inspections, case audits and compliance training.

Now, I would like to hand the call over to Ms. Jay Li, who will walk you through our second quarter and first half financial results.

Jing Li: Total interest and (inaudible) expenses decreased by 3% to 182 million, compared to 187 million, [primarily] due to lower funding costs from truck companies.

Net interest and fee incomes was 250 million, representing an increase of 12% from 223 million.

Net revenue under the commercial bank partnership model, representing fees charged to commercial banks for services including introducing borrowers, initial credit assessment, facilitating loans from the banks to the borrower, and providing technical assistance to the borrower and banks.

Net of fees paid to third-party insurance company and commissions paid to sales channels, was 29 million as compared to 0.7 million. The Company has been collaborating with commercial banks since 2021 and such collaboration grew and scaled in the second half of 2022.

The outstanding loan principal under the commercial bank partnership was 4.5 billion as of June 30, 2023 as compared to 0.3 billion as of June 30, 2022.

Collaboration cost for sales partners was 83 million as compared to 77 million, primarily due to the increase of loans recommended by sales partners under the commercial bank partnership.

Net interest and fees income after collaboration cost was 196 million, representing an increase of 33% from 147 million.

Provision for credit losses, representing provision for credit losses under the trust lending model, and the expected credit losses of guarantee under the commercial bank partnership model in relation to certain financial guarantee arrangements the Company entered into with a third-party guarantor, who provides guarantee services to commercial bank partners, decreased by 26% to 51 million from 68 million, primarily due to the decrease in outstanding loan principal of delinquent loans resulting from our constantly improving credit risk control mechanism.

Realized gains on sales of investments net, representing realized gains from the sales of investment securities, was 12 million, as compared to 8 million. The increase was primarily due to effective funds management.

Other gains net decreased by 97% to 0.8 million from 30 million, primarily due to the decrease of Credit Risk Mitigation Positions forfeited by the sales partners as a result of our refined management on sales partners.

Total operating expenses increased by 8% to 99 million, compared with 91 million.

Employee compensation and benefits was 51 million as compared to 49 million, primarily attributable to an increase in the performance -based bonuses as a result of an increase in loan origination volume during the second quarter of 2023.

Other expenses increased by 26% to 36 million from 29 million, primarily due to the increase in fees paid to local channels for introducing sales partners to the Company.

Net income increased by 142% to 44 million from 18 million.

For the first half of 2023, total interest and fees income increased by 7% to 885 million from 827 million.

Interest and financing service fees on loans increased by 5% to 807 million from 766 million, primarily attributable to the increase of average daily outstanding loan principal in the first half of 2023 as compared to the same period of 2022.

Interest income charged to sales partners increased by 18% to 66 million from 56 million, primarily due to the fact that the Company allowed more sales partners to repurchase the default loans in installments to help sales partners ease their pressure on cash flow in the first half of 2023.

Total interest and fees expenses decreased by 6% to 366 million from 388 million, primarily due to lower funding cost from trust companies in the first half of 2023.

Net interest and fees income was 518 million, representing an increase of 18% from 439 million.

Net revenue under the commercial bank partnership model was 50 million as compared to 0.9 million.

Collaboration cost for sales partners increased by 6% to 166 million from 156 million in the same period of 2022, primarily due to the increase of loans recommended by sales partners under the commercial bank partnership.

Provision for credit losses increased by 136% to 130 million from 55 million. The increase was the combined effect of the increase in expected credit losses of guarantee under the commercial bank partnership model, as origination volume grew and scaled rapidly in the first half of 2023; and a reversal of allowance in the first quarter of 2022 due to the fact that the Company disposed the remaining loans under the traditional facilitation model to third parties and the allowance of such loans was reversed.

Net losses on sales of loans was 4 million as compared to 42 million in the same period of 2022. The net losses in the first half of 2022 was primarily attributable to the fact that the Company disposed the remaining loans under the traditional facilitation model, which were all facilitated prior to 2019 to third parties in bulk during the first quarter of 2022.

Other gains net decreased by 65% to 17 million from 48 million in the same period of 2022, primarily due to primarily due to the decrease of Credit Risk Mitigation Positions forfeited by the sales partners as a result of our refined management on sales partners.

Total operating expenses increased by increased by 5% to 179 million, compared with 171 million in the same period of 2022.

Employee compensation and benefits increased by 4% to 95 from 92 million in the same period in 2022.

Other expenses increased by 14% to 60 million from 53 million, primarily due to the increase in fees paid to local channels for introducing sales partners to the Company.

Net income increased by 52% to 93 million, from 61 million in the same period of 2022.

As of June 30, 2023, the Company had cash and cash equivalents and restricted cash of 1.9 billion, compared with 1.8 billion as of December 31, 2022, including 1.3 billion and 1.2 billion from structured funds as of June 30, 2023 and December 31, 2022, respectively, which could only be used to grant new loans and activities.

The delinquency ratio, excluding loans held for sale, for loans originated by the Company decreased from 18.3% as of December 31, 2022 to 15.2% as of June 30, 2023.

The NPL ratio, excluding loans held for sale, for loans originated by the Company increased from 1.1% as of December 31, 2022 to 1.4% as of June 30, 2023.

Now we would like to start the Q&A session, operator, please.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). William Gregozeski of Greenridge Global.

William Gregozeski: I was hoping you could kind of provide an update on the demand you're seeing from the SME clients in terms of the number of SMEs trying to take out loans, the size, the type, whether it's the trust or the commercial? And how does that compare to last year?

Jun Qian: (Speaking foreign language).

(Translated). So based on the released that of the figures of July, we're seeing the overall loan demand of [SME] owners to decrease. So I have a set of data for you here. So the new loans in July -- China's new loans in July was 528 billion RMB, which has decreased to 270 billion RMB as compared to the same period of last year. And among them, new loans issued to the real economy was 36 billion, which has decreased by 389 billion as compared to the same period of last year.

As of CNFinance, so in the second quarter and the first half of 2023, our number of transactions were 6,269 and 11,812 respectively, which represents a year-on-year growth of 18% and 16%. And the loan origination volume was 4.5 billion and 8 billion in the second quarter and first half of 2023, respectively, which representing a year-on-year growth of 45% and 43%, respectively.

Okay. So as for the split from trust model and bank model, so in the second quarter of 2023, we originated 4,101 loan transactions under the trust lending model. And that number under the commercial bank partnership was 2,167. As for the first half of 2023, the number of transactions under trust lending model was 7,734 and that number under Commercial Bank partnership was 4,074.

So I think the reason why we achieved growth when the entire market is going on a downward trend has two -- the reason was two-fold. So first of all, in the same period of 2022, our business was under the negative influence of the pandemic control and prevention, so the business number is rather low. And I think the second reason of our growth is that we're still relatively small and our market share is relatively low. So with our continued efforts to build our sales, to push out more products, we were able to achieve a growth when the entire market is on a downward trend in the first half of 2023.

As for the average ticket size, so in the same period of 2022, our average ticket size was somewhere near 600,000, and has increased in 2023 to around 700,000. So I think the reason behind the increase of average the ticket size was mainly due to that we have, since the fourth quarter of 2022, to maintain the overall asset quality, we have made a decision to shift our business to the core area of tier-1 and new tier-1 cities. So we still believe, despite the overall downward trend and uncertainties associated with China's real estate market, the assets in the core area of tier-1 new China city will still maintain its value and even gradually go up. Thank you.

William Gregozeski: Great, thank you for all that. Are you guys -- even with the uncertainty of the economy, do you still think you'll see origination growth over the remainder of the year?

Jun Qian: (Speaking foreign language).

(Translated). So first off, we are still sticking to the target we made at the beginning of the year of reaching loan origination of 20 billion RMB. And secondly, we will still insist on our high-quality development, but are not giving in the valuation of borrowers as well as the estimation of collateral value. So as I have mentioned, our market share is still relatively low, even though given the 20 billion origination target. Thank you.

William Gregozeski: Okay, thanks. And then the last question is regarding the sales partners. The interest on the loans to the sales partners was down this quarter. Is that a sign of just less loans going into default, or sales partners having more liquidity? And what's kind of -- how active are the sales partners right now?

Jun Qian: (Speaking foreign language).

(Translated). So we see this change as a positive indicator. So we believe that means there are less defaults, which indicates that the overall asset quality is improving, which has caused less sales partners that have to repurchase the defaulted loans. And that has caused such number to decrease. And also, I think in the future, if this number keeps going down, it only means that our business is getting better; it means our sales partners are doing better, are performing well.

Anything else?

William Gregozeski: Okay. Thank you.

Operator: That concludes the question-and-answer session. I would like to turn the conference back over to Matthew Lou for closing remarks.

Matthew Lou: Thank you and thank you again for joining us today. If you have any other questions, please feel free to contact us at ir@cashchina.cn. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.