CNFinance Holdings Limited
Q4 & FY2023 Financial Results Conference Call
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Executives:
Matthew Liu, Manager Investor Relations
Jun Qian, Director and Vice President
Jing Li, Acting CFO

Analysts:
William Gregozeski, Greenbridge Global

Presentation

Operator: Hello, and welcome to the CNFinance Fourth Quarter and Fiscal Year 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, Investor Relations Manager. Please go ahead.

Matthew Liu: Thank you. Good morning and evening. And welcome to the CNFinance fourth quarter and fiscal year 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 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 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). 2023 is another important year in the history of CNFinance, as the condition of China's macro economy and real estate market continued to be complex, we were still able to deliver a solid result at year-end. We concluded the year facilitating loans of RMB17.3 billion, representing a year-on-year growth of 18%. In 2023, our interest income increased slightly as compared to that of 2022, yet our interest expense was 8% lower than that of 2022.

In 2023, the liquidity pressure of our sales partners has eased due to the installment policy we had given them. Also, as we started to involve sales partners under the commercial bank partnership, the protection to the loans are much stronger, which led to a 23% decrease of provision for credit losses. As a result, we have recorded a net income of 165 million in 2023, representing a year-on-year growth of 21%

The Company has faced many challenges in 2023. We have completed the following tasks to ensure smooth operations: First, promoting the commercial bank partnership and enriching the product mix. Since its launch, the commercial bank partnership has gradually gained recognition from the market and our partners due to its high-quality borrower base and low financing costs.

In 2023, we originated loans of 5 billion under the commercial bank partnership and recorded a net revenue of approximately 88 million. As of December 31, 2023, the outstanding loan principal under the commercial bank partnership was 4.3 billion.

Second, optimizing funding structure: As the market environment evolves, the management started negotiating with our funding partners to optimize funding structure. Based on the mutually beneficial relationship between the partners and CNF, our funding partners were very supportive on that subject. As the result, our interest expense in 2023 was 8% lower as compared to the same period of 2022. We believe this has laid the foundation for us and the funding partners to continue expand the business.

Third, continuing to support our sales partners: In 2023, to help sales partners alleviate their liquidity pressure, we continued to refine our installment policy for repurchasing delinquent loans. As the result, some sales partners who failed to fulfill their obligations were able to re-commence the installments and start to introduce new borrowers to the Company.

Fourth, improving asset quality: Due to the uncertainty associated with the real estate market, the management has decided to strategically shift CNF's business to core areas of China's core cities. 90% of loans CNF facilitated in 2023 was in Tier 1 and Tier 2 cities. In addition, in the fourth quarter of 2023, the company disposed of a bulk of non-performing loans, which helped the Company to reduce its risk exposure and recover cash.

Fifth, using technology to refine credit assessments: In 2023, we have applied the Property rating system to make more accurate evaluation of collaterals. We have also applied a Risk Control model designed by one of our commercial bank partners, by adding more variables to give more thorough analysis of applicant. As a result, our delinquency ratio dropped to 15.6% as of the end of 2023 as compared to 19.2% as of the end of 2022.

We believe that the Company will continue to face challenges in 2024. As there are still uncertainties associated with China's real estate market, it is equally important for us to maintain growth and contain risks. Our major tasks for 2024 include the following. First, we will keep making innovations in product mix. In the year of 2023, we have optimized our geographic footprint. Our goal for 2024 is to diversify our product offerings to meet borrower's needs in different scenarios, and target high-quality collaterals as well as borrowers with better risk profiles. At the same time, we will further optimize our sales team, to accommodate with the adjustment of product mix.

Second, facing the complex property market, we will prioritize asset quality. First, we will refine our risk control mechanism, except for collateral value, we will also assign greater importance to evaluating borrowers in decision-making. For example, we will take into account the applicant's industry, as that might impact its ability to make payments. Other than that, we will apply differentiated review procedures for large cases. In addition, we will continue to dispose of non-performing loans to contain our risk exposure.

Third, as one of the leaders in the industry, CNFinance fully recognizes the importance of compliance building for a company's sustainable growth. In 2024, we will continue to strengthen the compliance building. First, we will continue to refine our internal control mechanism; second, we will conduct compliance training on a regular basis to enhance our employees' awareness, and also, apply regular inspections, case audits and other practical means.

Now, I will hand the call over to our CFO Ms. Li to walk you through fourth quarter and fiscal year of 2023 financials.

Jing Li: Thank you, Mr. Qian, and welcome to our conference call. Now I would like to walk you through the fourth quarter and fiscal year of 2023 financials. Please notice that the currencies that we use will be in RMB, and all the comparisons will be made on a year-over-year basis unless otherwise stated.

For the fourth quarter of 2023, the total interest and fees income was -- remained rather stable at 445 million. The interest income charged to sales partners increased by 11% to 36 million from 33 million in the prior year. It's primarily attributable to an increase in the delinquent loans that were repurchased by sales partners in installments.

Total interest and fees expenses decreased by 7% to 187 million as compared to 201 million in last year, and this is primarily due to the lower funding cost of trust company partners. Net interest and fees income increased by 2% to 258 million as compared to 253 million in last year.

Net revenue under the commercial bank partnership model was 10 million as compared to 56 million in last year. The decrease was primarily due to the decrease of loans recommended by commercial banks in the fourth quarter of 2023 as compared to last year.

Collaboration cost for the sales partners increased to 91 million from 80 million, primarily attributable to an increase of daily average outstanding loan principal under the trust lending model during the fourth quarter of 2023, as well as the involvement of sales partners in the commercial bank partnership model since the beginning of this year.

Provision for credit losses was 42 million as compared to 143 million in last year, primarily attributable to the lower delinquency ratio. Besides, the fourth quarter of 2023, some sales partners who forfeited their Credit Risk Mitigation Positions due to the inability to fulfill their obligations to repurchase the delinquent loans during the first half of 2023. And then in the year-end -- before the year-end, they were able to recommence their payments.

In addition, we started to involve sales partners under the commercial bank partnership since the beginning of 2023, which has jointly led to an increase of guarantee assets and also provided more protection to the loans.

Net losses on sales of loans was 12 million as compared to 1 million in last year.

Total operating expenses increased by 15% to 97 million, compared to 84 million in last year.

Net income decreased by 33% to 19 million from 28 million.

For the fiscal year of 2023, the total interest and fees income increased by 1% to 1,755 million as compared to 1,731 million.

Interest income charged to sales partners increased by 10% to 135 million from 122 million in last year. This was primarily due to an increase in the delinquent loans that were repurchased by the sales partners in installments.

Total interest and fees expenses decreased by 8% to 723 million as compared to 785 million, primarily due to the lower funding cost of trust company partners.

Net revenue under the commercial bank partnership model increased by 53% to 88 million from 58 million. The increase was primarily due to the increase of loans recommended by the commercial banks in this year, as compared to the last year.

Collaboration cost for sales partners increased by 7% to 344 million as compared to the 321 million last year, primarily attributable to an increase of daily average outstanding loan principal under the trust lending model in 2023, and also, the involvement of sales partners in the commercial bank partnership model since the beginning of this year.

Provision for credit losses was 183 million as compared to 238 million in last year, primarily due to the lower delinquency ratio. Besides, in the fiscal year of 2023, some sales partners who forfeited their Credit Risk Mitigation Positions due to the inability to fulfill their obligations to repurchase delinquent loans during the first half of 2023, were able to recommence their payments. In addition, we started to involve sales partners under the commercial bank partnership since the beginning of 2023, which has jointly led to an increase of guarantee assets and also provided more protection to the loans.

Other gains was 5 million for this year, and compared with 90 million in last year. Starting in the second half of 2023, the balance of Credit Risk Mitigation Position forfeited by the sales partners has decreased as we refined our installment policies to ease the liquidity pressure of the sales partners. When the Credit Risk Mitigation Positions deposited by sales partners are [confiscated] by the Company, the Company will recognize the amount of the future profit and other gains. In the fourth quarter of 2023, some sales partners who forfeited their Credit Risk Mitigation Position were able to continue to fulfill their guarantee responsibility, and associated with their Credit Risk Mitigation Position, will not be deemed as confiscated.

Total operating expenses was 381 million as compared to 339 million.

And the net income increased by 22% to 165 million as compared to 135 million in last year.

As of December 31, 2023, the Company held cash and cash equivalents of 2 billion as compared with 1.8 billion as of December 31, 2022.

The delinquency ratio for loans originated by the Company decreased from 19.2% at December 31, 2022 to 15.6% at the end of 2023.

And the NPL ratio for the loans originated by the Company increased was 1.2% as of the end of this year, compared with 1.1% as of December 31, 2022.

With that, we would like to start the Q&A session.

Questions and Answers

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

William Gregozeski: With the continued decrease in the borrowing costs, do you think that the rate you've seen the last quarter is the rate that we should expect you guys to be borrowing at going forward?

Matthew Liu: (Speaking foreign language).

Jun Qian: (Speaking foreign language).

(Translated).

So the average rate that we charge our borrowers in 2023 was 16.1%, down from 16.3% from 2022. And going forward in 2024, I think based on the market conditions, our goal is to keep lowering the financing cost of our borrowers.

William Gregozeski: Okay. Can you talk kind of generally about the demand for the loans that you're seeing in terms of the size and the split between trust and commercial?

Matthew Liu: (Speaking foreign language).

Jun Qian: (Speaking foreign language).

(Translated).

So in 2023, due to uncertainties associated with the real asset market, the loan demand from MSE owners are actually not as expected. And so in the first 2 months, we don't see the strength to recover in the first 2 months in the year of 2024. If you take a look in the release data, China's new RMB loans in the first 2 months of 2024 was actually 1,100 billion lower than that of the same time of 2023. In the year of 2023, we facilitated loans of 12.2 billion under the trust lending model, and 50 billion under the commercial bank model. So the commercial bank -- the loan facilitation under the commercial bank model was actually 30% of the total loans originated, which well met our goals set in the beginning of 2023.

And also for the year of 2024, we still target the ratio between loans facilitated under trust lending and commercial lending to be 723 million. Mainly, the commercial bank model will take up 30% of our loan originations, and our target for loan origination for 2024, we want to achieve growth and we target to be 20 billion in total.

William Gregozeski: Okay, great. You mentioned doing some things like the compliance training and the audits and the increased borrower quality evaluation. Does that tie in at all to the technology upgrades for the platform you've been talking about, or is that something different?

Matthew Liu: (Speaking foreign language).

Jun Qian: (Speaking foreign language).

(Translated). So those are two different tasks. So as a participant in the financial industry, we believe that compliance building is one essential thing that we should do. And so for the year of 2024, we will surely enhance our compliance building and we want to make all the audits. We want to do the training and make compliance one essential thing for the culture and the culture of the company.

As for the investment in the technology, so in the year of 2023, we basically invested in two things. One is to enhance our evaluation of collaterals to make more accurate evaluation of the value of the collaterals. And the other thing is that as we said, we worked with one of our commercial bank partners to bring in this one big data model to give more thorough ratings to our borrowers.

And also in the year of 2024, we will keep on investing in technology. And we want to use the actual practical data that we collect from our daily operations to make adjustments to the aforementioned, to those two systems, and to make it more suitable to our business, and to adjust if there is anything that needs to be removed or anything that needs to be added into that model.

William Gregozeski: Okay, great. And then last question -- the share repurchase plan looks like it expired. Is there any plans to renew that?

Matthew Liu: I'm sorry. Could you say that again?

William Gregozeski: Yes, the share repurchase plan, it looks like the term on that expired like 1.5 weeks ago. Is there any plans to renew that?

Jing Li: (Speaking foreign language).

Matthew Liu: (Speaking foreign language).

(Translated). So that was actually from our CFO Mrs. Li. And she said we will -- going into present it in front of our board of directors, hoping to extend this per-share repurchase plan for another year.

William Gregozeski: Okay, great. Thank you, guys.

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

Matthew Liu: Thank you, Drew, and thank you, everybody, for joining us today in this conference call. If you have any 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.