CNFinance Holdings Limited
Q1 2023 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, Greenridge Global

Presentation

Operator: Hello, and welcome to the CNFinance First Quarter of 2023 Unaudited 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. Welcome to the CNFinance first quarter 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 statements 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). Thanks, everyone, for taking your time and attend this conference call. Today, we will introduce CNF's operational and financial results in the first quarter of 2023, and followed by a Q&A session.

In the first quarter of 2023, we have maintained our momentum and achieved year-on-year growth in some key operational and financial indicators. In this quarter, the loan origination volume increased 48% from the same period of 2022 to RMB3.4 billion, including RMB1.2 billion under commercial bank partnership. Net revenue under the commercial bank partnership model came in as RMB21.5 million for the first quarter of 2023.

The total interest and fees income for Q1 2023 was RMB450 million, representing a year-on-year increase of 9%.

We continued to provide installment services and funding support for sales partners who are obligated to repurchase delinquent loans and recorded an interest income charged to sales partners of RMB37.5 million.

The net income in Q1 2023 increased 14% year-on-year to RMB49 million.

In the first quarter of 2023, we have done the following works. We continued to promote and refine commercial bank partnership. Targeted borrowers of commercial bank partnership have better credit ratings in general, and bank lending products require less own capital by the company. Since its launch in 2021, the commercial bank partnership model has gradually gained recognition from the market and our partners because of its low interest rate. After deepening cooperation with private banks, the origination volume of bank lending products began to increase quickly in the second half of 2022, and continued to grow in the first quarter of 2023.

In Q1 2023, loan origination volume of bank lending products accounted for 35% of total loans originated by the company, and has become one of the company's major revenue streams. In this quarter, we have brought sales partners into the commercial bank partnership and further reduced our risk exposure.

We have reduced the funding cost and diversified the financing mix. As we have reached consensus with funding partners on reducing interest rates in the second half of 2022, our interest and fees expense in Q1 2023 has decreased 8% year-on-year to RMB180 million.

In this quarter, we successfully established a couple of funds with third party AMCs and provided sufficient and consistent funding support for sales partners who needed to repurchase delinquent loans. With that, sales partners' liquidity was improved and was more motivated to expand their business.

We have improved the asset quality. In this quarter, we analyzed the historical loan origination and conducted risk factor analysis on defaulted loans. Based on the results, we refined our model for risk assessment and shifted our prioritization to business operations in tier-1, new tier-1 and other major cities. As a result, the delinquency ratio at the end of Q1 of 2023 has decreased as compared to the end of 2022.

We continued to be confident that China's inclusive finance industry is in its window period. At the same time, the complicated and uncertain environment has made it very important for us to pursue high-quality development. We must expand our business while increasing our profit margin and overall efficiency. Our tasks include: We will focus on increasing loan origination volume. We will continue to take measures to better service high-quality sales partners and support their growth. We will keep promoting commercial bank partnership, refining trust lending model and discovering opportunities to deepen our collaboration with insurance companies. We will adjust our products based on market conditions.

We are looking forward to rolling out a new bank lending product that charges an annual interest rate less than 12% in the second quarter of 2023. We will keep refining our funding model. First, we will maintain dialogues with trust company partners on adjusting the structure of trust plans; second, we will negotiate with AMCs on reducing the interest rates they charge in order to further ease [technical difficulty] of our sales partners.

Operator: Excuse me. This is the operator. I'm sorry, we're getting a lot of noise. I'm going to see if we can reconnect. Just one moment please. Excuse me. This is the operator. I have Matthew to resume. Thank you. Please go ahead.

Matthew Liu: All right. Welcome back. And let us pick up from whenever we [left off]. Now please welcome again Mr. Jun Qian to give his part.

Jun Qian: (Speaking foreign language).

(Translated). Our future tasks include, first, we will focus on increasing loan origination volume. We will continue to take measures to better service high-quality sales partners and support their growth. We will keep promoting commercial bank partnership, refining trust lending model and discovering opportunities to deepen our collaboration with insurance companies. We will adjust our products based on market conditions. We are looking forward to rolling out a new bank lending product that charges an annual interest rate less than 12% in the second half of 2023.

Second, we will keep refining our funding model. First, we will maintain dialogue with trust company partners on adjusting the structure of trust plans. Second, we will negotiate with AMCs on reducing the interest rates they charge in order to further ease liquidity pressure of our sales partners. Third, we will keep investing in [technical difficulty] and fully recognize the importance of technology in refining product design and risk assessment. We will continue to analyze historical data of loans originated. We will tailor products or loans served by collaterals in core areas of tier-1 and new tier-1 cities.

We will also roll out trust lending products that charge lower interest to increase our market share through deeper analysis on different factors of collaterals and borrowers to help refine risk assessment model in order to improve asset quality and our resistance to market fluctuations.

Now I would like to hand the call over to our Acting CFO, Mrs. Jay Li, who will walk you through the financial results of Q1 2023.

Jing Li: Thank you. Thank you, Mr. Qian. Now let's go through the first quarter of 2023 financial results. Before we start, I want to remind you that unless otherwise stated, the currency we use will be in RMB. Also, unless otherwise stated, all comparisons will be made on a year-on-year basis.

The interest and financial service fees on loans increased by 5% to 412 million from 391 million, primarily attributable to the increase of average daily outstanding loan principal in the first quarter of 2023 as compared to the same period [of 2022].

Interest income charged to sales partners, representing the fee charged to sales partners who choose to repurchase default loans in installments, increased by [60]% to 38 million from 23 million, primarily due to the fact that the company allows more sales partners to repurchase [technical difficulty] installments to help sales partners ease their pressure on cash flow.

Interest and fees expenses decreased by 8% to 185 million as compared to 201 million in last year, primarily due to a decrease in daily average [technical difficulty] borrowings as well as the funding cost from the trust companies.

Net interest and fees income increased by 24% to 269 million from [technical difficulty].

Net revenue under the commercial bank partnership model was 22 million. The company has started to collaborate with commercial bank since 2021, and such collaboration growth and scale in the second quarter of 2022. The outstanding loan principal under the commercial bank partnership was 3.4 billion as of March 31, 2023 and compared with 70.4 million as of the same period of last year.

Collaboration costs of our sales partner [technical difficulty] sales incentive paid to sales partner, increased by 4% to 83 million compared to 80 million last year. This is primary attributable to the increase of average daily outstanding loan principal in the first quarter of 2023 as compared to the same period of last year.

Provision for credit losses representing provisions for credit losses under the trust company model, and the expected credit loss of guarantee under the commercial bank partnership model in relation to the third financial guarantee arrangements the company entered into with a third-party guarantor, who provides guarantee services to commercial bank partners.

It was 79 million in the first quarter of 2023 as compared to a reversal of 14 million in the same period of 2022. The reversal in last year was primarily due to the transfer of remaining loan under the traditional facilitation model [technical difficulty] allowance of such loans with the reversals.

Operator: Excuse me. This is the operator again. I'm sorry. What I will try to do is re-connect, and we'll try to find a better connection. Thank you. (Operator Instructions). Thank you. Excuse me. This is the operator. I'd like to re-introduce Matthew once again. Please go ahead, sir.

Matthew Liu: Thank you. Thank you. Welcome again to this conference call. Sorry for the connection issue. Now I'd like to hand the call over and re-introduce our Acting CFO, Ms. Jay Li, who will go over the financial results with you of Q1 2023. Please go ahead.

Jing Li: Thank you. And I'm sorry for the issues. Now we reconnected and we start at -- now let's go through the first quarter of 2023 financials. Before we start, I want to remind you that unless otherwise stated, the currency we use will be in RMB. And also, unless otherwise stated, all comparisons will be made on a year-over-year basis.

Interest and financing service fees on loans increased by 5% to 412 million from 391 million, primarily attributable to the increase of average daily outstanding loan principal in the first quarter of 2023 as compared to the same period of 2022.

Interest income charged to sales partners, representing fees charged to sales partners who choose to repurchase default loans in installments, increased by [60]% to 38 million from 23 million, primarily due to the fact that the company allows more sales partners to repurchase different loans in installments to help sales partners ease their pressure on cash flow.

Interest and fees expenses decreased by 8% to 185 million as compared to 201 million, primarily due to the decrease in daily average outstanding loan principal of other borrowings as well as the funding cost from trust companies.

Net interest and fees income increased by 24% to 269 million from [216] million.

Net revenue under the commercial bank partnership model was 22 million. The company has started to collaborate with commercial bank since 2021, and such collaboration growth and scale in the second half of 2022. The outstanding loan principal under the commercial bank partnership was 3.4 billion as of March 31, 2023 and compared to 70.4 million as of the same period of last year.

Collaboration costs for sales partner representing the sales incentive paid to sales partner increased by 4% to 83 million compared to [80] million last year. This is primary attributable to the increase of average daily outstanding loan principal in the first quarter of 2023 as compared with the same period of last year.

Provision for credit losses representing provisions for credit losses under the trust company model, and the expected credit loss of guarantee under the commercial bank partnership model in relation to the third financial guarantee arrangements the company entered into with a third-party guarantor, who provides guarantee services to commercial bank partners.

It was 79 million in the first quarter of 2023 as compared to a reversal of 14 million in the same period of last year. The reversal in last year was primarily due to the transfer of remaining loan under the traditional facilitation model to third-parties and the allowance of such loans with the reversals.

Operating expense remained stable at 80 million. The income tax expense was 18 million compared with 15 million in the same period of last year primarily due to the increase in taxable income in the first quarter of this year.

Net income increased by 14% to 49 million compared to RMB43 million last year.

As of March 31, 2023, the company has cash, cash equivalents and restricted cash of 2.2 billion compared to 1.8 billion as of December 31, 2022.

The delinquency ratio for loan originated by the company decreased from 18.3% as of December 31, 2022 to 15.2% as of March 31, 2023. The NPL ratio for loan originated by the company was 1.8% of the March 31, 2023 as compared to 1.1% at December 31, 2022.

Now we would like to go ahead and start the Q&A section. Please?

Questions and Answers

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

William Gregozeski: The provision for credit losses bounced around the last few quarters. How should we look at that going forward for modeling purposes?

Jun Qian: (Speaking foreign language).

Jing Li: (Speaking foreign language).

(Translated). So we have always maintained a very consistent provision policy, and it's based on a model that is provided and supported by our auditors, as well as the peers in the financing industry. And since we introduced the collaboration model 4 years ago, and after 4 years of operation, we believe that the sales partners are providing very good guarantee to our -- to the loans we introduced. And especially in this quarter, as the sales partners are providing guarantee and protection to the loans they introduced, our delinquency ratio is actually lower, has actually decreased. And that's why based on the model, the provision model, we have [occurred] less provision.

And also as the -- since the pandemic control is over in China and the macro economy has turned, has made a good turn, and that also impacts our forecast for the future. And that's another reason why the provision is lower in this quarter. So going forward, as we have recognized the advancement of the collaboration model, and more importantly, we have also brought sales partners into our partnership with commercial banks, I think we will just hold on to this collaboration with sales partners in the future because not only does it help us to contain the risk, it also helps us to expand our scale. Does that answer your question?

William Gregozeski: Yes, yes, thank you. On the commercial lending side, you've talked in the past about that being around a third of origination. Do you think that will stay around that level because that's where you're at now, given how fast the origination numbers are taking off of that and the new product you mentioned you're rolling out?

Matthew Liu: I didn't catch your first line. Could you repeat that?

William Gregozeski: Yes. You guys have talked in the past about the commercial lending being about a third of origination. Do you think that will get higher, given how fast it's growing and the new product you're bringing out?

Matthew Liu: Okay. (Speaking foreign language).

Jun Qian: (Speaking foreign language).

(Translated). So if you look back to the data in the first quarter, the loans originated under our collaboration with commercial banks actually accounted for 35%. And I think that's well above our estimation, but I think that's the plan [pick]. So in the future, I think the origination volume of commercial bank partnership will just continue to grow. But as long as the overall loan originated keeps growing as well, I think the percentage, the proportion of commercial bank partnership is going to keep -- to be kept at 35% to 40%. And that proportion is based on our current expectations, just based on the current market conditions and our analysis.

But if it is possible for us to, like we said, roll out the loan product under the commercial bank partnership which charges the interest rate that's lower than 12% annually, I think the proportion of loan products -- loans facilitated under the commercial bank partnership will just grow as well, and it will just cut a higher share in our overall loan origination. Thank you.

William Gregozeski: Okay. Okay. And I guess you're kind of implying too that the trust company origination will be increasing as well. Are you guys seeing more demand now for those products? You mentioned in the previous question that the macro economy is improving. Are you seeing more demand for kind of the traditional lending that you guys have done?

Matthew Liu: (Speaking foreign language).

Jun Qian: (Speaking foreign language).

(Translated). So based on the status and data released in the first quarter of 2023, I think the lending demand is rather stable as compared to the same period of 2022. And looking forward to the second quarter and after, we remain confident in China's economy, and I think it is going to pick up gradually in the future. So there is still room for us to expand our business, but as we have said, we will pursue high-quality development.

So that means we will focus more on the asset quality as well as to operate in a more compliant way to build the compliance -- to operate fully in a compliant way. That's why I think we are going to keep our estimation for the year of total loan origination of 20 billion. Thank you.

William Gregozeski: Okay, great. Thank you. Thank you. See you guys next week.

Operator: (Operator Instructions). Seeing there are no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to Matthew Liu any closing remarks.

Matthew Liu: Thank you. And thank you, guys, again for attending this conference call. And just apologize again for the connection issues. So on this call, we'll have a replay on our IR website at ir@cashchina.cn. If you have any questions, you can also contact us via ir@cashchina.com. Thank you. Thank you again.

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