VCREDIT Holdings Limited (2003.HK)

2021 Annual Result Conference Call

March 24, 2022

Executives:

Stephen Liu – Founder & Chief Executive Officer

Hong Bai – Chief Financial Officer

Ethan Gong – Chief Risk Officer

Echo Fang – Vice Chief Financial Officer

Operator:

Welcome to today's VCREDIT 2021 annual result conference call with Chief Executive Officer Mr. Stephen Liu, Chief Financial Officer Ms. Hong Bai, Chief Risk Officer Mr. Ethan Gong, and Vice Chief Financial Officer Ms. Echo Fang.

For the first part of this call, all participants will be in listen-only mode. Mr. Liu will provide an overview of the company recent performance and highlight. Ms Bai will present you with more detailed discussion on financial results. There will be Q&A section for the presentation. Now I'd like to take the opportunity to remind you that the company's remarks today main include certain forward-looking statements. Number of risk factors beyond its control may cause actual results to differ materially from this forward-looking statement. During this call, the company will present you both IFRS and Non-IFRS financial measures. They will also discuss general market conditions for the industry. And such information may come from a variety of source outside of VCREDIT. Now I'd like to turn the call over to Mr. Liu, Mr. Liu please begin.

Stephen Liu:

Thank you. Good morning, everyone. I'm very pleased to report that we had a record year of profitability during 2021. We continued to strengthen our position as a leading independent technology-driven online fintech company. Despite the economic uncertainties due to COVID-19 pandemic and the fast-evolving regulatory environment in the past two years, we have been able to proactively optimize our business strategy and business model. Our robust performance and profitability have demonstrated our ability to respond to changes and also resilience of our operations. We continue to adjust our credit models to target, engage, attract, and also retain high quality customers. At the same times, we adapt our operation strategy to preemptively align our business direction with regulatory trends and streamlined our operations and processes to enhance our operational efficiency and customer experience.

Our historical record-high operational and financial performance in 2021 is a reflection of all these efforts. I'm glad to announce that cash dividend of HKD0.15 per share will be recommended, and also together with the interim dividend, total for the year 2021 will amount to HKD0.35 per share. Also, as a sign of confidence of our profitability and liquidity, we intend to maintain a dividend payout policy of 20% to 30 % of earnings in the future. In terms of operational performance, our high-quality growth momentum demonstrates the effectiveness of our business strategies. In 2021, our total loan origination volume was RMB40.71 billion, representing an increase of 32.3% compared to RMB30.77 billion in 2020. Our outstanding loan balance exceeded RMB15.64 billion as at December 31, 2021, which also representing an 11.2% increase compared with RMB14.07 billion as at December 31, 2020.

During the year, we took a prudent approach in our overall risk management especially in light of the macro uncertainties. To cultivate and expand our high-quality customer base, we insisted on iterating and refining our proprietary credit risk models by constantly introducing multi-dimensional data and new technologies. Additionally, we have upscaled our AI-powered collection and customer service system to enhance our post loan management. With all these efforts, we have been able to achieve a healthy balance between asset quality and business growth.

Our first payment delinquency ratio stabilized at 0.43%, and our M1-M3 ratio and M3+ ratio was well-controlled at 4.01% and 2.39%. respectively, by the end of 2021. Comparing to the first half of 2021, our delinquency ratio is higher which is mainly driven by two factors. First, a macroeconomic slowdown due to factors including a number of regional COVID-19 outbreaks in the second half of 2021. Also, the second factor is our internal credit policy refinement to proactively cope with the stricter regulatory pricing cap. So, we intentionally try to squeeze our sort of less credit quality customers in the second half of 2021.

We are confident of our risk management capability to stabilize our asset quality performance in the current environment. On the customer acquisition front, we adopted omni-channel cooperation to better communicate with our target customers and deliver value to them. With our ability to address the credit needs of our credit-worthy customers and deliver a superior customer experience, our repeat borrower contribution was 85.0% of loan origination volume by the end of 2021 which demonstrated our users' loyalty and also the strength of our brand.

Fostering a stable and diversified base of funding partners is critical to our business. We have always collaborated with licensed institutions throughout our history of our company. By the end of 2021, we had established business cooperate with 69 external licensed funding partners, including 11 nationwide joint-stock commercial banks, consumer finance companies and trust institutions. The total volume through loan facilitation structure amounted to RMB23.25 billion or 57.1% of total loan origination volume in 2021, and also the total loan origination volume through pure loan facilitation structure amounted to RMB1.41 billion or 3.5% of total loan origination volume in 2021. With that, I would like to pass to Bai Hong, our CFO to further appreciate you on the financial performance of our company.

Hong, Bai:

Thanks, Stephen. Good morning, everyone. Welcome to our full year 2021 earnings call. In the interest of time, I will not go through all of the financial line items on this call. Please refer to our earnings release for further details.

As Stephen mentioned, we are delighted to report that we closed 2021 on a strong note along with a record profitability despite facing economic uncertainties due to ongoing COVID-19 pandemic and fast- evolving regulatory environment.

With the successful implementation of our business strategy in migrating to higher-quality customers, and ongoing efforts to optimize our operations, and enhanced risk management, our financial performance in 2021 represented a significant turnaround compared with net loss in 2020.

Our total income increased by 34.4% to RMB3.46 billion for the Year, compared to RMB2.57 billion in 2020, mainly driven by our loan origination volume growth through our loan facilitation structure resulting in an about three-fold increase in loan facilitation service fees.

With our strategic shift to higher-quality customers and effective risk management, our asset quality has improved significantly in 2021. Our fair value loss of loans to customers decreased by 83% to RMB0.38 billion for the Year, compared with RMB 2.23 billion in 2020 and we recorded a gain from guarantee of RMB0.46 billion for the Year compared to a loss from guarantee of RMB0.01 billion in 2020.

Our operating expenses, excluding share-based compensation expenses, increased by 35.2% to RMB1.51 billion for the Year, compared to RMB1.12 billion in 2020, which is in line with the growth of loan origination volume and the migration to higher-quality customers.

With above, we recorded a net profit and adjusted net profit up to RMB1.18 billion and RMB1.21 billion, respectively, for the Year, compared to a net loss and adjusted net loss of RMB0.87 billion and RMB0.79 billion respectively, in 2020.

With strong operating and financial results, our leverage ratio, which is defined as total loan book divided by equity, drop to 4.6x as the end of 2021 from 6.2x of 2020.

We are always mindful for our cash position and the overall liquidity. Our total cash and the cash equivalents also increased to RMB1.9 billion for the year from RMB1.5 billion at the end of 2020, increased by 27%.

As Stephen mentioned, our 2021 full year dividend was HK35 cents per share with the final dividend subject to shareholder’s approval, and the dividend yield (based on the closing price on March 23) exceeds 10%

With that, I would like to conclude our prepared remarks. Operator, we can now take some questions.

Operator:

Thank you. We now begin our question in that section. If you have a question to today's speaker, please press 01 on your telephone keypad, and you will enter the queue. After you announced, please ask a question. If you find your question has been answered before, it's your turn to speak, please press 02 to cancel the questions. Once again, press 01 on your telephone keypad to ask questions.

Our first question is from Greg Zhen at Credit Suisse. Please go ahead.

Greg Zhen:

Congratulations for the record results in 2021, and thank you management for giving me the opportunity to ask questions. I have three questions. Firstly, could you please offer some color on the average loan pricing or APR during the Q4 for the last year if we are on track to lower APR to meet the regulatory requirements by the middle of this year? Secondly, can you provide some guidance about 2022 in terms of loan volume influenced by COVID-19 resurgence currently in some cities in China and potential macro-economy slowdown? Finally, do we have buyback programs in place now? Given the relatively undemanding valuation of the stock, is there any plan to initiate new buyback program? Thank you.

Stephen Liu:

Let me answer the first question about pricing. A sign from 2021, actually our pricing, I think, is in full compliance with regulation, which is below 36%. Our understanding about the current market is actually legal to do any loan up to 36%. However, the funding available from a financial situation, it's kind of constrained because some of the funding partners, they already received the sort of window instruction from regulatory bodies to ask them to lower the price up to 24%. So, starting from the Q4 of last year, we tried to cope with this trend, because we gradually realized that less funding partners are willing to provide any funding which charge up to 36%. I would say, we gradually lower the price, and the first 2 months of this year, the trend continues. And I can tell you that up to this moment and slightly over 50% of our new origination, the pricing is under 24%. We believe the trend will continue. On the other hand, we still see some funding partners actually are willing to provide funding at 36%. But I think gradually more and more funding partners are only willing to provide funding up to 24%. So, we believe the trend will continue and gradually will shift to maybe from 50%/50%, gradually 60%/40%, or 70%/30%. That's we're going to see in this year.

And then the second questions. In terms of the guideline, we believe and still try to maintain a healthy growth, even we understand the macro-economy uncertainties and also regulatory uncertainties. We are confident to further grow our loan origination of volume in 2022 by 20%-30%. Last year was ~RMB 40 billion, and so we are targeting roughly RMB 50 billion in 2022.

Hong, Bai:

Let me take the third question from Greg. As you asking our buyback plans, in the 2021 based on our sufficient liquidity and confidence in our values., we repurchased and cancelled 3.25 million shares on the stock exchange at the total price of HKD18.17 million, this is 2021. But at this moment, at present for 2022, the company has no specific repurchase plan. So, if there's any information about the buyback we will announce in the first time. Thank you.

Stephen Liu:

We do have a general mandate to buy back shares. The management will define according to the capital market situation. But again, it's not our intention to use buyback tools to boost our stock price. We don't have this intention, but when we have available cash and we find this market prices are reasonable, the management will react. Thank you.

Greg Zhen:

Thank you very much.

Operator:

Thank you. Next questions from Rain Zhu at VC Asset Management Limited. Please go ahead.

Rain Zhu:

Good morning management. Congratulations to such an excellent result. I have two questions. The first, compared to 2020, the company's operating profit margin has a significant growth. What is the main reason? And the second, recently many industries, such as the internet industry have experienced a large lay off. The repayment capacity of residents will also be affected in the future. How does the company guarantee a steady asset quality? Does it mean that the future acquisition cost will be improved? Thanks.

Stephen Liu:

Thank you, Rain. Firstly, you talk about the margin, I think the largest cost of our business is the credit cost, what happened in 2020 was the COVID-19 outbreak in a lot of cities, especially Wuhan. And for those reasons, we actually suffered quite a bit in terms of credit cost. So that actually are negatively impact our profit margin in 2020. I think of what we managed to do a good job in 2021 was we focused on better quality customers. And we have successfully migrated our customer segments to a customer segment of prime and near prime customer, which substantially lower the credit cost. As I said, that's actually that the major change of the operating cost, I think that was the reason for our exceptionally good year, a good result in 2021.

The second question is about asset quality impact from internet layoff. Honestly, there are a lot of things happening every day in China. As I said, we already managed to migrate our customer segments from near-prime/subprime segments to prime/near-prime customer segments, we are actually much more confident to navigate the situation I mean the mass layoff. But on the other hand, we also seen a lot of potentially positive factors. For example, we are seeing that in an easier monetary policy and more liquidity in the market. And I think that also help us to lower the credit cost a lot. I also want to ask our CRO Ethan to have more comments to be better answer your question.

Ethan Gong

I don't think that any company can guarantee the asset quality on a lot of uncertainties that's going forward. But as mentioned by our CEO Mr. Liu, first of all, we have intentionally moved our customer base upwards in terms of credit worthiness during the past 2 or 3 years. If you look at our customer profile from PBOC it has been transformed dramatically. At this point of time, we are very comfortable of our existing customer and all our future customer that they will be much better able to deal with the uncertainty in the macro-economic environment.

Secondly, starting from this year, we have noticed that lots of liquidity have been pumped into the macro-economy and across industry. We have seen the repayment capability has been improved a lot. And we are cautiously optimistic that this kind of policy, I mean liquidity policy from PBOC will be a persistent phenomenon, as long as the COVID-19 is still ongoing. And the real-estate industry sector has not still been recovered yet. This is the tailwinds to some extent that can help our customer deal with any negative impact from the COVID-19. Lastly, I still want to emphasize the risk management, system mechanism that we are constantly improving on site, because we are still building generation risk model. And one thing that we are different from our competitors is we are not in a pricing war to acquire customers. We are diversifying our acquisition channel to acquire as many credit-worthy customers as possible, so that we are not get into the pricing game to acquire customers. We have capability that we have a unique proprietary model to cherry pick the best customers from different channels and compared to other very pricy channels in the market.

Hong, Bai:

From internally, we are confident of our risk management capability to stabilize our asset quality which has already been proven in 2021. Externally, I think from country perspective, both central and local governments, will encourage consumption to drive the economy, because in Q42021 China's GDP growth rate was 4%, and dropped from previous quarters. To drive the economy, government will have the policy to stimulate consumption. From this perspective, I think it will help on our asset quality as well. Thank you.

Rain Zhu:

Thank you very much.

Operator:

Once again, if you want to ask any question, please press 01 on a telephone keypad. Our next questions from Anna Fung at Anli Holdings Limited. Please go ahead.

Anna Fung:

Good morning, everyone. I have three questions want to ask. The first one is the company have any plan to expand domestically or overseas in the future? The second one is, what is the estimated CAPEX in 2022? How will it be allocated? The third one, I want to ask the company's future business goal engine, what is the company's keep the business focus in the future? Thank you.

Stephen Liu:

Let me see the first question. We do have a plan to expand our business overseas. However, it's being constrained because of the COVID-19 situation. Actually in 2021, we conclude a couple of small investments overseas in a related status, in the area of fintech particularly overseas. And we also looking for an opportunity to involve in digital banking business overseas. We are closely looking at the opportunities, but we don't have any concrete things to announce at this moment. Hopefully, if we manage to conquer anything we will announce it, simply answer your questions, we are interested in expanding our business overseas. Especially when the situation allows, the COVID-19 is over, and we will actually progress more quickly towards this direction.

The second question is about business focus. Actually, VCREDIT has been in this business since 2006, put it in this way, we think we are pretty focused player. We still believe AI driven credit business will be our main focus. And having said that we are also spending our business to the segments of SME, especially SME owners. Gradually, we already started to provide small credits to SME business owners, because this is also promoted by the government in China. And as I said that we will be still quite focusing on a small ticket size and AI-driven credit business. This is based on scoring, based on scorecard, based on AI, that's our focus. And I've said that we are also exploring other potential opportunities in the fintech area in China. But honestly, and our management style is very cautious. We have passed quite a lot of potential opportunities, because we are not totally convinced that would be our strength and that would be a compliant business model operating in China. But then having said, we will still keep looking for potential business opportunity domestically in China, especially in the area of fintech.

Stephen Liu:

And could you please repeat your second question? CAPEX?

Anna Fung:

Yes. The estimate CAPEX? And how will it be allocated?

Stephen Liu:

Firstly, I think our CAPEX basically are referring to hardware investments in our IT department, I think the budget number for 2022 will be larger only for IT. That's our strategy to keep growing our IT in terms of our talent headcounts and also hardware investment. I'm not saying this is a very essential increase, but it's ongoing. I think every year we will keep increasing our investment in hardware of our IT. Thank you.

Anna Fung:

Thank you.

Operator:

Once again, if you have any questions, please press 01 on the telephone keypad. Once again, if you want to ask any questions to the management. Press 01 on the telephone keypad. As there are no further questions, I would like to pass it back to management for any close remark.

Stephen Liu:

Thank you, everyone. And I want to take this opportunity to address more about the first question from Greg. Regarding the pricing, I just want to give everyone more color about what's our management thinking about pricing. Firstly, our current strategy is we seek full compliance. So as long as this is in a fully complied situation, and we do not actively seek like a full 100% pricing below 24%. And I see some of the competitors, and they may trend this way, but we believe this is not in the interest of our shareholder. We believe as long as in full compliance with regulation and law, and that we are dealing with the challenges that we are getting less funding available for us to do loan business above 24%.

But again, it's not our focus to shift 100% to 24% pricing unless this is legally required to do so. Because again, we believe generating value to our shareholder is very important. And given the challenging regulation, regulatory environment in China, our management is trying to navigate this. And again, I just want to emphasize full compliance is a must, but 24% at this moment, in our opinion, is not a must yet, but we will wait and see how the market develops. Thank you very much.

Hong, Bai:

Thanks everyone. If you interest in our company, you can find our contact information on our website. If you have any follow up questions, please feel free to contact with us. Thank you so much.

Operator:

This concludes our conference call. Thank you all for attending.