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VCREDIT 2022 Annual Results Investor Conference Call Transcript March 24, 2023

Executives:

Mr. Stephen Liu – Chief Executive Officer

Ms. Hong Bai – Chief Financial Officer

Mr. Ethan Gong – Chief Risk Officer

Ms. Echo Fang – Vice Chief Financial Officer

MC:

Good morning ladies and gentlemen, on behalf of VCREDIT Holdings Limited, I would like to welcome all of you to the Company's 2022 Annual Results Investor Presentation. This presentation will be conducted in English.

First, let me introduce to you the senior executives from the Company here with us today. Mr. Stephen LIU, Chief Executive Officer; Ms. Hong BAI, Chief Financial Officer; Mr. Ethan GONG, Chief Risk Officer; and Ms. Echo FANG, Vice Chief Financial Officer.

In today's meeting, Mr. Liu will provide an overview of the company's performance and highlight during the year. Ms. Bai will present you with more detailed discussion on financial results. After the presentation, the management will take questions from participants.

Now I'd like to take the opportunity to remind you that the company's remark today may 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 both IFRS and Non-IFRS financial measures. We will also discuss general market condition for the industry, and such information may come from a variety source outside of VCREDIT.

Now I'd like to turn it over to Mr. Liu, Mr. Liu please begin.

Mr. Stephen Liu:

Thank you. Good morning, everyone. I'm Stephen Liu, the CEO of the company. 2022 is actually a very volatile year, micro environment headwinds plus COVID related lockdowns made it difficult to maintain and grow our business. Despite the challenges, we were able to achieve a strong operating and financial performance in 2022, which I believe that demonstrates the resilience and flexibility of our operations.

We have seen some positive signs of recovery in consumer financing in China since January of this year. As business confidence recovering and liquidity injection from PBOC taking effect, we are expanding more friendly environment for business in 2023.

As a reflection of our solid performance, we have recommended the payment of a final dividend of Hong Kong dollar 10 cents per share for 2022, subject to shareholders approval.

In 2022, our total loan origination volume was RMB 52.19 billion, representing an increase of 28.3% compared to RMB40.71 billion in 2021. Our outstanding loan balance exceeded RMB 25.07 billion as at December 31 2022, representing an increase of 60.3% compared to RMB15.64 billion as at the end of 2021.

One positive trend of our business is that we kept improving the engagement of our customers with 84% of our loan volume contributed by repeat borrowers. Retaining and capturing high-quality users has always been a focus of our business strategy. Meanwhile, we enhanced our customer acquisition efficiency by upgrading our real time acquisition models. This methodology enables us to acquire desired customers much more cost-effectively.

Our credit and risk management system has been optimized with new generations of scorecards and policies. I would like to highlight one thing: with the help of new risk model, we were able to significantly improve new customer approval rate while keeping the risk metrics virtually unchanged. It is very critical for our sustainable growth down the road. The first payment delinquency ratio, one of our key leading indicators of our asset quality, was approximately 0.43% at the fourth quarter of 2022. This is an industry-wide low level despite a challenging economic environment. And our M3+ ratio stood at 1.77% at the end of 2022.

Building a stable and diversified base of funding partners is also very critical to our business. Our funding costs continued to come down throughout the 2022. Furthermore, we have established the business cooperation with 92 external licensed funding partners, including 20 nationwide joint-stock commercial banks, consumer finance companies and trust institutions. In 2022, the total loan volume facilitated through credit-enhanced structure amounted to RMB31.67 billion, 60.7% of our total loan origination volume. To transition towards capital-light model loans, we also focused more efforts on pure loan facilitation mode and achieved the triple-digit year-over-year growth in loan volume and funding partners. Total loan volume facilitated through pure loan facilitation structure amounted to RMB7.6 billion, around 14.6% of the total loan origination volume in 2022, representing an increase of 440.1% as compared with RMB1.41 billion in 2021.

While China is our principal market, we're taking initiatives to deliver Fin-Tech services in other markets. At the end of 2022, we invested in the Opus Financial Holdings Group , which provides financial and advisory services in Hong Kong. Meanwhile, we will be launching a consumer finance lending business in Hong Kong in 2023. Other than Hong Kong market, we will

be also exploring both Southeast Asia and the European markets, where we believe our market-proven technology and risk management know-how can give us a competitive advantage. We look forward to achieving a breakthrough on this front and delivering more value to our stakeholders. That includes our customers, shareholders, employees, and society.

Now, I will turn over to our CFO, Ms. Bai Hong. And she's going to go through the financial results with you. Thank you.

Ms. Hong Bai:

Thanks, Stephen. Good morning, everyone and welcome to our 2022 annual results conference. In the interest of time, I'm not going to go through all of the financial line items on this call, please refer to our earnings release for further details.

So, 2022 was undoubtedly challenging. With the ongoing strategy of migrating to higher-quality customers and the fluctuating macro-environments, our total income was RMB3,119 million in 2022. Despite an increase in loan origination volume, this represents a decrease of 9.8% as compared to RMB 3,458 million in 2021 .

Our fair value loss of loans to customers increased to RMB572 million in 2022, as compared to RMB379 million in 2021. Our credit impairment loss increased to RMB130 million in 2022 , as compared to RMB46 million in 2021 , primarily driven by the increase in loan volume and the conservative estimations driven by challenging environment.

In line with the growth of loan origination volume, our operating expenses excluding share-based compensation expenses increased by 11% to RMB 1,679 million in 2022, as compared to RMB1,513 million in 2021.

As a result, we recorded net profit and adjusted net profit of RMB532 million and RMB537 million respectively, a decrease of 55% and 56% as compared to RMB1,179 million and RMB 1,213 million, respectively in 2021.

Our leverage ratio which is defined as the risk-bearing loan balance divided by the shareholders' equity , kept at a healthy level, which currently stands at 5.5 times at the year end of 2022, which is slightly higher than the end of 2021 mainly driven by the growing scale.

In terms of the liquidity, we're very mindful for our cash position and the overall liquidity. Our total cash and cash equivalents are around RMB 1.6 billion in 2022 and remained at a strong level. All of these offer company a support to remain resilient and give us a solid foundation to grow our business.

Our board also recommended final dividend of Hong Kong dollar 10 cents per share, subject to shareholder's approval. Together with the interim, the annual dividend will reach Hong Kong dollar 20 cents per share for 2022.

Looking ahead to 2023, we remain cautiously optimistic about China's macro-economic recovery and the consumption outlook. We look forward to achieving a sustainable and healthy growth in 2023.

With that, I'd like to conclude our prepared remarks. Operator, we can now take some questions. Thank you.

Operator:

Thank you. We will now poll for question. Thank you, Ms. Bai. We will now begin our question and answer session. If you have a question for today's speaker please press *1 on your telephone keypad and you will be entered into the queue. If you find your question has been answered before, please press *2 to cancel the question.

Ladies and gentlemen, that is *1 to register for question. Thank you. We have a follow up question coming from Ms. Jennifer Lee from Peak Capital. Please go ahead.

Ms. Jennifer Lee:

Hello, thank you management for the presentation. I'd like to ask if you can share with us any future plans of growing of the company. Thank you so much.

Mr. Stephen Liu:

Thank you. As I mentioned earlier, we've seen some positive signs at the beginning of this year. And I think it's our company's long-term strategies, we want to maintain healthy and sustainable growth. In terms of business volume in 2022, it was roughly 52 billion which represented an increase of 28% compared to the volume in 2021. We are expecting a further 30% growth in terms of total loan origination volume in 2023. We see opportunities, but at the same time we believe it's going to be challenging in terms of the macro-economic environment, and management will make our effort to navigate those challenges. We will maintain a healthy and sustainable growth, and pay very close attention to the risk level. We want to stabilize and further improve the asset quality while we are achieving this 30% growth in terms of business volume. Thank you!

Operator:

Ladies and gentlemen that is *1 to register for question, thank you! We have one more question from Jennifer. Please go ahead.

Ms. Jennifer Lee:

Hello, I wonder if you can share with us if you can, like disclose any information in the first quarter of 2023 at the moment. Thank you so much.

Mr. Stephen Liu:

Firstly, we are approaching the end of March, I want to let you know that in terms of business volume, we've already reached 6 billion a month. That's actually a high level in terms of monthly loan origination volume for us, we see the market recovery and the demand for the consumer financing. In terms of asset quality, I would like to ask our risk officer Ethan to answer your questions.

Mr. Ethan Gong:

In terms of the early indicator of risk metrics in quarter one of 2023, I like to just give you a full picture as far as I see now. So, first of all, the day one delinquency ratio has been more or less aligned with what we observed in Q3 and Q4 of last year. Also, there is another metrics that we are watching very closely, it is the flow rate from current to the bucket one, which is delinquency days between one day and 30 days. So, this is a quite good metrics to measure the whole portfolio - how does it perform. And we have observed that this metrics has been improved in Q1 of 2023 compared to Q1 and Q3 2022. So this is an indicator that give us the confidence that the whole market is improving, because we are talking about the whole portfolio instead of the newly issued alone. But again, we are still cautiously optimistic, the reason being the recovery of the economy, I still have some uncertainty. Because exporting sector of the economy is not as strong as we thought. Also, we are expecting there will be some probably more strict regulation policy in our horizon this year and therefore, there will be some constraints on how can we targeting customers and how do we handle operations and so forth. So, therefore, again I would echo our CFO Bai Hong's opinion that we are optimistic, although we see some positive signs, we should stay cautious as well. That's my two cents on the asset quality side.

MC:

Thank you. we would like to conclude the presentation now. If you have any additional questions, please contact the IR department of VCREDIT. You can find the contact information on the company's website, or you may contact us, Hill+Knowlton Strategies. Our contact details can be found in the email that we sent you together with the presentation material. So please get in touch with us and we will be happy to follow up. This concludes the investor presentation. Thank you everyone for tuning in today. You may now disconnect your line. Thank you.