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VCREDIT 2023 Annual Results
Investor Conference Call Transcript
March 27, 2024

Executives:
Mr. Stephen LIU - Chief Executive Officer;
Ms. BAI Hong - Chief Financial Officer;
Mr. Ethan GONG - Chief Risk Officer; and
Ms. Echo FANG - Vice Chief Financial Officer

MC:
Good morning, ladies and gentlemen, on behalf of VCREDIT Holdings Limited, I'd like to welcome all of you to the company's 2023 annual results investor presentation. This presentation will be conducted in English. First, let me introduce to the senior executives from the company here with us today. Mr. Stephen LIU, Chief Executive Officer, Ms. BAI Hong, Chief Financial Officer, Mr. Ethan GONG, Chief Risk Officer and Ms. Echo FANG, Vice Chief Financial Officer. For the first part of the call, all participants will be in listen-only mode. Mr. Liu will provide an overview of the Company's recent performance and highlights. Ms. Bai will present you with more detailed discussions on financial results. After the presentation, the management will take questions from participants. Now, I'd like to take this opportunity to remind you that the company's remarks today may include certain forward-looking statement. Number of risk factors beyond its control may cause actual results to differ materially from this forward-looking statement. During the call, the company will present both IFRS and Non-IFRS financial measures. We will also discuss general market conditions for the industry. And such information may come from a variety source outside of VCREDIT, I'd like to turn it over to Mr. Liu, Mr. Liu please begin.

Mr. Stephen Liu:
Good morning, everyone. Following an initial rebound at the start of the year, the momentum of China’s macroeconomic recovery has slowed down, with consumer credit demand being weaker than we expected towards the end of 2023. To address these challenges, we have promptly and proactively adjusted our business strategy. Our performance in 2023 validates effectiveness of our strategy adjustments and demonstrates the resilience of our business operation.

As a reflection of our solid performance, we have recommended the payment of a final dividend of HKD 10 cents per share for 2023, subject to shareholders’ approval.

In 2023, our total loan origination volume was RMB 75.25 billion representing a substantial increase compared with that in 2022, which is actually representing an increase by 44.2 %. Our outstanding loan balance also exceeded RMB 34.47 billion as at the end of 2023, representing an increase of 37.5 % compared to that as of the end of 2022.

The significant growth in loan volume is attributed to our continuous optimization of our operations. On the customer acquisition side, we continue to expand high-quality customer acquisition channels. We have established cooperations with well-known content platforms, photo editing applications, internet-based logistics platforms, lifestyle service information platforms and other premium channels. Through comprehensive user behavior analysis models, and refined user segmentation, we are achieving precise targeting for high-quality customers. In 2023, our cumulative registered users increased to 144.1 million, which represents a 13.6 % increase compared to that in 2022. At the same time, we continuously enhance customer experience by optimizing our product offerings and systems to improve the retention and engagement of our existing customers. Our repeat borrowers accounted for 85.1 % of the total loan volume in 2023.

While achieving significant business growth, we continue to adjust and optimize our risk management framework to address market and user behavior changes. We persisted in refining multi-source scorecards and risk management policies, leveraging the robust risk identification capabilities of our models to more accurately assess customer risk levels. In response to regulatory guidelines on collection, we proactively implemented forward-looking management in the areas of post-loan collection and customer complaints in the first half of 2023.

In addition, since November 2023, the industry has experienced line control by telecom carriers which led to lower collection rates in collection operation. I think this has an adversely impact on our collection operation. As a result, our first payment default rate rose to 0.71 % in the fourth quarter of 2023, and our M1-M3 ratio and M3+ ratio also increased compared to last year, standing at 5.07% and 2.98 %, respectively at the end of 2023. To cope with the regulatory changes and macroeconomic challenges, we undertook several conservative risk policy measures in addition to multiple impactful model upgrades and complex tests to improve our capability of differentiating customers. With these efforts, we have already begun to observe a decline in our Day 1 delinquency rate and improved asset quality for new loans originated in early 2024. With our effective risk models and prudent risk management, we are confident that our asset quality will continue to improve in 2024.

Furthermore, fostering a stable and diversified funding partner base is crucial to our business. Our funding costs during 2023 continued to present a declining trend as we continued to optimize our funding structure. We are able to maintain healthy and long-term collaboration with our funding partners by offering a value proposition which includes efficient risk management and attractive risk-adjust returns.

By the end of 2023, we had established business cooperation with 104 external licensed funding partners, including 24 nationwide joint-stock commercial banks, consumer finance companies and trust institutions. In 2023, we have undertaken diversified forms of cooperation to ensure fund security and complaint operations, while achieving a win-win situation and stable growth for all our stakeholders. In the end, the total loan volume facilitated through our loan facilitation structure amounted to RMB 63.15 billion, which is roughly 83.9% of the total loan origination volume, out of these RMB 63.15 billion loan facilitation structures, roughly RMB 12.4 billion were so-called pure loan origination structure, which means we did not even take any credit risk for that part of business that we generated.

In 2023, the wave of artificial intelligence swept across the globe, and we have also been at the forefront of harnessing this technology. Leveraging advanced large language models, we have successfully launched our AI powered intelligent online customer service bot that can engage in personalized interactions with users, further enhancing user experience and customer retention. Following the implementation of these initiatives, we are currently achieving a customer self-reservation rate of up to 97%. Furthermore, we have introduced a smart office assistant, which significantly enhanced our employees' productivity and optimized operational efficiency. We also aim to explore collaborations with our partners in a variety of areas such as intelligent marketing, intelligent post-loan management, and intelligent risk control.

Apart from developing our existing consumer finance business domestically, we are also actively expanding our operations to different regions and countries to establish a diversified operating model in line with our long-term strategy.

As a Hong Kong based company, capitalizing on our insights into Hong Kong's consumer credit market and technological strengths, we successfully obtained a money lender license in April 2023 and officially launched a localized consumer finance brand in Hong Kong called "CreFIT" in September. With our core mission of "safeguarding credit health", our first product, CreFIT ClearCard Credit, is dedicated to helping Hong Kong residents clear their credit card debts without affecting their credit ratings.

Since its launched, CreFIT has been recognized for its emphasis on customer service experience in the Hong Kong market. Our App has received a rating of 4.6 out of 5, reflecting high user satisfaction. Looking ahead, we will continue to position ourselves as a trustworthy and customer central provider of innovative financial services. Moreover, we have also successfully reached an agreement to acquire "BPG" in Portugal, which is actually a credit institution registered with the Bank of Portugal in May of 2023. We are currently undergoing the standard regulatory approval process. And also, it looks quite promising to secure their approval. We look forward to achieving a breakthrough in these new endeavors and strive for the best returns for our shareholders.

On the regulatory front, we have established a Customer Protection Committee to comprehensively coordinate consumer protection efforts and further strengthening consumer rights protection, and advocating a healthy, fair, transparent, and trustworthy consumer environment.

Additionally, we have fully implemented the credit agency reform, so-called "Duanzhilian", to better protect customer privacy and information security. Adhering to the highest level of regulatory compliance and ensuring a sustainable business model, has always been and will continue to be our top priority, as well as our core strength.

Looking ahead to 2024, macroeconomic uncertainties continue to persist. We will focus on pursuing high-quality growth by optimizing risk performance and operations, and enhancing overall profitability.

I look forward to delivering more value to our stakeholders, including our customers, shareholders, employees, and the society.

Now I will turn the call over to our CFO Bai Hong, who will further discuss our financial results. Thank you.

Ms. Hong Bai:
Thanks, Stephen. Good morning, everyone. Welcome to our 2023 annual results conference. In the interest of time, I will not go through all the financial lines on this call, please refer to our earnings release for further details.

As China's macroeconomic environment continues to involve with the ongoing business strategy optimization, we concluded 2023 on a positive note. Our total income was RMB 3,569.5 million in 2023, representing an increase of 14.4% as compared to RMB 3,119.3 million in 2022, primarily due to the increase in loan origination volume.

Our fair value loss of loans to customers increased to RMB 574.1 million in 2023, as compared to RMB 571.9 million in 2022. Our credit impairment loss increased to RMB 344.6 million in 2023, as compared to RMB 129.5 million in 2022, primarily due to an increase in loan volume, generated through our credit-enhanced loan facilities and structure.

In line with the expansion of our loan origination volume, our operating expenses, excluding share-based compensation expenses, increased by 22.6 % to RMB 2,058.3 million in 2023, as compared to RMB 1,679.4 million in 2022.

As a result, we recorded net profit and adjusted net profit of RMB 453.9 million and RMB 455.6 million respectively, a decreased of 14.8 % and 15.2 % as compared to RMB 532.5 million and RMB 537.4 million, respectively, in 2022.

Our leverage ratio, which is defined as risk-bearing outstanding loan balance, divided by the shareholders equity, currently stands at 6.8 times at the year-end of 2023, which is slightly higher than that in the end of 2022 mainly driven by the growing scale.

As Stephen mentioned, our board also recommended a final dividend of HKD 10 cents per share, subject to shareholders' approval. Then together with the interim, the annual dividend will reach to HKD 25 cents per share for 2023, which accounted for around 25% of our net profit.

China's macro environment remains complex at this moment, and the pace of recovery is still uncertain. In 2024, we will continue our efforts on optimizing our business model, strengthening our risk management, and enhancing our technological capabilities. We believe these factors will contribute to the company's resilience in navigating a changing and evolving macro environment, providing support for long-term sustainable growth and profitability.

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

Operator:
Thank you. Ladies and gentlemen, we are now calling for questions. If you would like to register for a question, please press star one. Thank you. Once again, please press star one for questions. Thank you. Our first question comes from Avy with AJA Capital. Please go ahead. Thank you.

Ms. Avy Yu:
Hello, management. We noticed that there is an increase in the asset quality ratio last year. What's the reason behind it and how will the company cope with it?

Mr. Stephen Liu
Let me take the question very briefly, and I think maybe our Risk Officer can add to my answers. I think mainly two reasons. One is, obviously we are seeing an overall macroeconomic slowdown, but I think the nature of business is when people are more confident in future, then they tend to borrow more. But if people are getting less confident in future, and especially I think for those quality customers, they tend not to borrow. So we are seeing sort of weaker demand from good customers, there are fewer quality customers who keep borrowing. So I think usually under a macroeconomic downturn situation, the asset quality will deteriorate naturally.

The second is, I think, we're still seeing more regulatory changes in China. I mean mainly in two major areas, one is the collection site. In China at this moment, we are always talking about the "政治性、人民性". The government actually implemented a lot of measures on the collection effort, including control of the telephone lines, which is very important for us to reach the customers. And also, the government also raise the bar in terms of consumer protection. If we're having more customer complaints, we will actually get pressure from the government as well. So I think these are two major reasons. And Ethan, if you have anything to add, please go ahead.

Mr. Ethan Gong:
Just would like to add one more point. The government's direction is to protect the benefits of consumers and borrowers with the measure that has enforced the regulations or the laws that how we gonna reach out to customers. Therefore, we have to cope with the new reality, the new normal, the way that we are making calls to our customers to remind when and how they gonna pay back the loan. So once we factor in all the factors and the macroeconomic environment, we will be able to re-evaluate the creditworthiness of our customers. And therefore, as a result, to some extent, we have to change the credit exposure to different customers. For example, some customers might be more resilient under the macro-economic environment. So we will be able to increase the credit line. But to some borrowers that are not as resilient, then we have to reduce the exposure. By making all these adjustments, we have already seen better risk performance in early 2024. We are quite confident that new policies and new business models will help us cope with these challenges down the road.

Operator:
Thank you. And the next question comes from Bernard from Sun Fong. Please go ahead.

Mr. Bernard Chan:
As the company's loan volume had a significant growth in 2023, what are the drivers for the growth? Will the company maintain a similar growth rate in 2024? Thank you.

Mr. Stephen Liu:
Let me take this question. Firstly, I think the consumer lending market is quite big in China. And I think everybody knows that this is not a winner-take-all market. Honestly, it's not that difficult to grow the business, which we did in the first, especially in the first half of 2023. And by expanding our collaboration with various ecosystems, internet platforms, because our customer acquisition is obviously 100% online, now we are not relying on any offline customer acquisition. The strategy turned out to be quite effective in terms of expanding our business further. But then starting from the second half of 2023, we've seen those macroeconomic changes. And as I mentioned in the previous questions the recovery has slowed down in China, we decided to pause to further grow starting from the end of 2023. I think we have adjusted our priority under the current situation. We think growth is not our priority. I think quality growth is more important than just like another 30% or 40% growth in 2024. Our first priority at this moment is to stabilize everything. And we need to lower down our risk level. We need to adjust our risk policy. And on top of that, we will adjust our strategy, and we will definitely pursue growth, but as I mentioned, a quality growth. And we don't set a growth target at this moment for 2024.

Operator:
Bernard, do you have any further questions?

Mr. Bernard Chan:
No. Thank you management.

Operator:
Thank you. And management, there is no further question at this point. Thank you.

MC
Thank you, operator. And thank you the management for answering all the questions. If you have any additional questions that haven't been answered, or you would like to talk to the IR department of VCredit, you can find the contact information on the company website, or you may contact us, Hill and Knowlton. Our contact details are in the email that we sent with the presentation materials. This concludes the Investor Presentation. Thank you everyone for tuning in today. Have a nice day!