



(SEHK stock code: 2003)

VCREDIT 2024 Interim Results Investor Conference Call Transcript August 27, 2024

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 2024 Interim Results Investor presentation. This presentation will be conducted in English.

First, let me introduce to you the senior executives for 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.

For the first part of this 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 a more detailed discussion on financial results. After the presentations, 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. A number of risk factors beyond its control may cause actual results to differ materially from the forward-looking statements. During this 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 of sources 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. Thank you for joining us today. In the first half of 2024, China's macroeconomic environment remained sluggish with weak consumer demand. To navigate these challenges, we promptly adjusted our business strategy and further tightened the credit policies to enhance the health and the sustainability of our operations. While loan origination decreased due to the combined effects from weak credit demand and our prudent strategies, our performance validates the effectiveness of our adjustments and demonstrates the resilience of our business operations.

Our loan origination volume reached RMB 27.02 billion for the Period, representing a decrease of 25.3% compared to the six months ended June 30, 2023 and a decrease of 30.8% compared to the six months ended December 31, 2023. As of June 30, 2024, our outstanding loan balance was RMB 26.6 billion, representing a 22.8% decrease from RMB 34.47 billion as of December 31, 2023.

During the Period, we tightened our credit policies and concurrently completed an iterative upgrade of risk model to comprehensively reduce our customer credit risk exposure. Through these initiatives, our first payment default ratio for newly originated loans, a leading indicator of our asset quality, dropped by 30% to 0.50% in the second quarter of 2024 compared to the fourth quarter of 2023.

However, due to the adverse impact of unfavorable macroeconomic conditions and reduced scale, our M3+ ratio rose to 3.82% by the end of the second quarter of 2024. On a positive note, the Government has implemented various economic and fiscal policies and measures to address the challenging macroenvironment and encourage greater consumption. As the effects of these policies gradually unfold, coupled with effective risk models and prudent risk management, we are confident that the asset quality will continue to improve.

On the customer acquisition side, we continue to actively expand premium acquisition channels to acquire high-quality customers. Over this Period, we have successfully established new partnerships with leading lifestyle service platforms, further enhancing our ability to attract high-quality customers. By enriching user behavior analysis models and refining user segmentation, we have improved our capability to precisely target desired customers. In the Period, our cumulative registered users increased to 149.1 million, a growth of 9.8% compared to the Corresponding Period. At the same time, we continued to enhance customer experience by optimizing our product offerings and systems to improve the retention and engagement of existing users. Repeat borrowers accounted for 89.5% of our total loan volume in the Period.

Fostering a stable and diversified funding partner base is crucial to our business. Our funding costs during the Period continued to present a declining trend as we optimized our funding structure. We have been 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 adjusted returns. By the end of the Period, we had business cooperation with 109 external licensed funding partners.

Technology is our core competitive advantage. We have proactively embraced the Artificial Intelligence (AI) innovation and explored its wide-ranging applications across all business sectors. During the Period, we have expanded the reach of AI into customer service and post-loan management. By deeply analyzing user conversation content, we have been able to not only comprehensively recognize their needs but also continually optimize our operational strategies, ultimately enhancing the user experience. We have also made significant breakthroughs in other intelligent solutions. One of the primary internal applications has been AI-augmented code generation, where we have observed coding efficiency more than double in certain projects. Moreover, we have always been committed to empowering our core business with technological advancements, particularly in risk management. Through in-depth transformation and upgrade of our risk rule engine, we have further increased the automation level of our risk model,

effectively enhancing the security and stability of our system, and laying a solid foundation for the steady development of our business.

In addition to developing our core existing consumer finance business domestically in China, we're also actively expanding our operations to different markets to establish a broader operating model in line with our long-term strategy. In May 2024, our Hong Kong business became the first money lender in Hong Kong to cooperate with China Mobile Hong Kong, successfully expanding the customer acquisition channel network and providing users with a tailored experience. We look forward to building on new endeavors to extract the best returns for our shareholders.

Towards the end of last year, we implemented the proactive strategic adjustments to optimize post-loan collection process and the customer complaint management system, simultaneously, we established a dedicated Consumer Protection Committee to further strengthen consumer protection. Through continuous efforts, we are constantly improving our product and service system, ensuring that every innovation revolves closely around the core of consumer rights protection.

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 and competitive advantage.

Looking ahead in 2024, macroeconomic uncertainties remain. We'll 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 wider community.

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 2024 interim results conference. In the interest of time, I will not go through all the financial items on this call. Please refer to our earnings release for further details.

Our total income was RMB 1,738.4 million for the Period, representing a decrease of 9.3% as compared to RMB 1,917.6 million for the Corresponding Period, primarily due to a reduction in loan volume and the loan balance in our loan facilitation structure.

Our fair value losses of loans to customers increased to RMB 592.3 million for the Period, as compared to RMB 333.5 million for the Corresponding Period. On one hand it was due to the growth in loan origination volume of on-balance loans. On the other hand, we took a conservative approach on provisioning given continuing macro uncertainties.

As our loan origination volume declined, our operating expenses, excluding share-based compensation expenses, was RMB 868.8 million for the Period, a decrease of 17.5% as compared to RMB 1,052.9 million for the Corresponding Period.

As a result, we recorded net profit and adjusted net profit of RMB 120.3 million and RMB 120.7 million, respectively, for the Period, a decrease of 60.2% and 60.2%, as compared to RMB 302.1 million and RMB 303.5 million, for the Corresponding Period, respectively.

Our leverage ratio, which is defined as risk bearing loan balance divided by the shareholders' equity, kept at a relatively healthy level of 5.4 times at the end of June this year, which is lower than the end of 2023 mainly driven by the reducing scale.

China's macro environment remains complex in the first half of 2024 and will take time for the economy to recover. In the second half of the year, 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 a 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 wish to ask a question, please press star one. Thank you.

Once again, please press star one for questions. Thank you.

First question comes from Sidney Leng with Maxa capital. Thank you.

Mr. Sidney Leng:

Hello, thanks for sharing. What is the outlook for loan demand and growth in the second half of 2024? Thank you.

Mr. Ethan Gong

Okay. this is Ethan Gong, the Chief Risk Officer. Let me try to answer this question.

So, the loan demand in the market seems like steadily increasing since January this year. And it's partially due to the slow recovery of the economy and also the quantitative easing policy or something like quantitative easing policy that the government is pursuing. And it is also helping the demand grow.

So, for the rest of 2024, we expect this trend will continue, but we are predicting that the demand is not growing on the high speed. Therefore, we will have our underwriting policy adjusted accordingly.

Operator:

Thank you. We'll now take our next question from Avy with AJA capital. Please go ahead.

Ms. Avy:

The Company's first payment delinquency ratio decreased QoQ in the Q2 of 2024, while the M3+ ratio increased. What are the reasons for this?

Mr. Stephen Liu:

Let me try to answer this question.

I think we usually focus on two risk indicators. The one is the leading indicator, that's the first payment default ratio. I think that's actually being quite stable now. It's getting much more improved, compared with the end of last year.

However, the M3+ ratio, it's an indicator, kind of equivalent to a non-performing loan ratio as used by most of the banks. And that ratio actually deteriorates. But I think there are two key reasons. One is the asset quality, it's getting worse compared with the same Period of last year. But I think the second reason is more important, in my opinion, is that the key contributing factor is actually the decrease of the loan volume. I think we have become very conservative and then we tighten our credit policy. At the same time, the demand is weak and we see less high-quality customer are willing to borrow in the first half of this year. So, as a result, the total loan outstanding dropped, that way actually push up the M3+ ratio because the denominator is getting smaller. Then I think that's the key contributing factor.

But then looking forward, as Ethan just answered the first questions, we're seeing that demand is actually gradually coming back, and we are projecting that an increase in total loan origination amount in the second half of this year. Then I think the total loan outstanding balance will be increased. So, I think that ratio will be improved in the second half of this year.

I hope that answers your question.

Operator:

Now, would like to remind you, please press star one for questions.

Currently, we do not have any further questions on the line. Now. I'll pass the time to the host. Thank you.

MC:

Thank you, operator. Thanks again for all the questions from the participants. If you have any additional questions that haven't been answered, please contact the IR department of VCREDIT. And you can find the contact information on the company's website, or you may contact us - Burson. Our contact details are in the email that we've sent the presentation material. This concludes investor presentation. Thank you everyone for tuning in today. Have a nice day. Goodbye.