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+++ presentation

Operator^ Ladies and gentlemen, thank you for standing by, and welcome to Yiren Digital Third Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Lydia Yu. Thank you. Please go ahead.

Lydia Yu^ Thank you, and welcome to Yiren Digital's Third Quarter 2020 Earnings Conference Call. Today's call features the presentation by the Founder, Chairman and CEO of CreditEase and CEO of Yiren Digital, Mr. Ning Tang; CFO of Yiren Digital, Ms. Na Mei; and CRO of Yiren Digital, Mr. Michael Ji; Ms. Mei Zhao, Senior VP of Yiren Digital; and Mr. Dennis Cong, Director of Yiren Digital, will join the presenters in the Q&A session.

Before beginning, we would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and factors that could cause actual results to differ materially from those contained in any such statements. Further information regarding potential risks, uncertainties or factors is included in Yiren Digital's filings with the U.S. Securities and Exchange Commission. Yiren Digital does not undertake any obligation to update any forward-looking statements except as required under applicable law.

During the call, we will be referring to several non-GAAP financial measures and supplemental measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP measures and reconciliations to GAAP measures please refer to our earnings press release.

I will now pass it on to Ning for opening remarks.

Ning Tang^ Hi, everyone. Thank you all for joining our third quarter 2020 earnings conference call today. We are very pleased to deliver a solid quarter, and we continue to make progress in our business transitions and strategic repositioning as we drive our online wealth management business into scale and ramp up our new creditech product offerings. We have achieved profitability and meaningful growth on both our wealth management and the creditech business lines.

For our wealth management business, we are seeing promising growth momentum in wealth management products and services, and that the demand remains strong. As of end of September, total AUA of wealth management products increased by 71% quarter-over-quarter to RMB 4.3 billion, and the total sales volume of wealth management products increased by 110% quarter-over-quarter to RMB 4.6 billion. New investors of wealth management products on Yiren Wealth in this quarter stood over 58,200, representing a 255% growth compared to last quarter.

More specifically, mutual fund products continue to enjoy strong popularity among customers with AUA reaching RMB 1.4 billion, up 34% from last quarter. The average AUA per investor for mutual funds stood at RMB 58,000, increasing by 15% from prior quarter. It's worth mentioning that our fund portfolio products see remarkable popularity among investors, which took more than 80% of the total fund sales volume this quarter and are becoming a strong driver of our wealth management business as we continue to make strong efforts into new product design sourcing.

Meanwhile, our insurance business has grown rapidly, exceeding our expectations. As mentioned at our last call, we completed the acquisition of the insurance broker, Ocean, and as of September month end, sales volume and revenue of this segment have already exceeded our full year target and began to contribute meaningful income to our wealth management businesses through its life and property insurance offerings. And accelerated growth is expected to our insurance business as Ocean begins operation in its full swing.

Furthermore, our securities business in its final stage for product and service launch, and will provide our investors with quality stock trading service and easy access to both Hong Kong and the U.S. capital and financial markets soon. Apart from that, we are also establishing an online investor education channel, which will further enrich our wealth management full spectrum service offerings to our mass affluent investor base on Yiren Wealth platform.

Next, on to our creditech business. Let me highlight 3 key initiatives as we continue to drive our sales volume growth. First, our new product offering and expansion. Our new products continue to show strong growth as we shift towards small revolving loans and auto secured loans. For the small revolving loans, we have seen a quarterly increase of close to 100%, accounting for 19% of the total loan volume of the quarter. Meanwhile, auto secured loans grew 76% compared to the last quarter and took almost half of the total sales volume, leveraging our nationwide offline network to provide high-quality services to this customer segment. We expect our auto secured loans to continue their strong growth in Q4 and will be the main growth driver to our creditech revenue with superior credit risk performance.

On our borrower acquisition strategy, we are continuing to strengthen our cooperation with large traffic platforms such as Xiaomi and 58.com. We also begin to work closely with channel partners to provide customized small revolving consumption loan products and potentially expand our partnership from CPS-based model to profit-sharing model, further diversifying our product offerings and enriching consumption scenarios of the credit ecosystem.

Driven by the effective channel partnerships, we have cut our online customer acquisition cost to low single-digit percentage of loan volume in the third quarter.

Secondly, on our transition to financial institutional funding. I'm pleased to announce that starting in September, we funded 100% of our loan business with financial institutional funding. Successfully completed the full transformation of our credit business into loan facilitation model. For this quarter, 98% of our loans were funded by financial institutions compared to 63% of last quarter, and we are further diversifying our partner base.

Lastly, on risk performance. With our product mix shifting to inherently lower credit loss product offerings and ongoing effort to upgrade our borrower base and tighter credit policy, we have seen significant improvement in asset quality and a sharp decline in delinquency, which already outperforms the pre-pandemic level.

Looking into the fourth quarter and the year ahead, our top priorities will be to grow our online wealth management business into scale with multiple product and service offerings, to provide a holistic investor experience to our mass affluent customer base and to execute on our creditech business transition into financial institution-funded business model with strong channel partnerships for customer acquisition, while migrating our borrower base to better credit quality spectrum, to optimize our product pricing and credit performance.

With the large growing market opportunities in both wealth management and creditech businesses, we believe Yiren Digital is well positioned as China's leading digital platform providing comprehensive personal financial services.

With that, I will now turn the call over to our CFO, Na, who will discuss our financial results for the quarter.

Na Mei^ Thanks, Ning. Hello, everyone. For financial update, I will focus on key items of our business operation and the financial performance. You can refer to the detailed financial results in our earnings release and IR deck that have been posted on our website.

On wealth management, as of September 30, 2020, Yiren Wealth has served close to 2.3 million investors cumulatively, and around 174,000 investors currently hold an investments on our platform. As of September 30, 2020, total AUA for Yiren Wealth reached RMB 25.5 billion. But specifically, AUA for wealth management products, which excludes our legacy P2P loan, grew 71% from prior quarter to RMB 4.3 billion as of September 30, 2020.

On the credit side, loan originations for the quarter was RMB 3.2 billion, representing an increase of 33% quarter-over-quarter. Secure out loan under (foreign language), our new smart revolving consumption loan product, continues to be the main driver of our loan volume growth. This quarter together is representing close to 17% of loan facilities.

On funding, we have made significant progress in transition to a loan facilitation model by partnering with financial institutions. Nearly 98% of our loans were funded by financial institutions this quarter. And as Ning had previously mentioned, our loan facility in September were already 100% funded by financial institutions.

Onto our financial. Total revenue was RMB 1 billion in the third quarter, representing an increase of 36% from previous quarter. In particular, other revenue has increased 68% from previous quarter to RMB 203 billion, mainly due to the ramp of wealth management products for the bank products, insurance and mutual funds. Sales and the marketing spend was RMB 485 million this quarter, representing 15.1% of loan volume as compared to 21.2% last quarter due to increased customer acquisition efficiencies and overall better cost control.

Allowance for contract assets and receivables was RMB 25 million this quarter, equivalent to 0.8% of loan volume as compared to RMB 159 million last quarter, which was equivalent to 7% of loan volume due to better risk performance.

Net income for this quarter was RMB 80 million, representing a net income margin of 7.8% as compared to a net loss of RMB 232 million last quarter. As we complete our business transition, last year, we expanded our facilities to significantly improve as we transition to higher-margin products, including secure auto loan on the price side and the insurance products, which generate high commission revenue as we continue to ramp up on the wealth management side.

Although the macro environment in China has improved with the pandemic largely stabilized, we continue to take a conservative stance to risk management with contribution to our credit assurance program remaining under 7.8% this quarter to ensure adequate coverage. Our credit assurance program remains adequately funded with total balance equivalent to 17.3% of the total performing loan as of September 30, 2020.

On the balance sheet side, our cash position remains strong with RMB 3.3 billion of cash and short-term investment as of September 30, 2020.

With that, I will now pass to our CRO, Michael, for an update on credit risk.

Chunjiang Ji^ Thank you, Na. Hello, everyone. On credit performance, we continue to execute a prudent risk management strategy, and the delinquency rates have shown a continuous improvement. 15 to 90 days delinquency has decreased to 4.4% as of September 30, 2020, from 5.5% as of June 30, 2020. This quarter, our team focused on the following actions: we completed the restructuring of our collection team and continued to drive new innovative collection projects, which are expected to result in a decline in NCL by over 15% as compared with our projection at the beginning of the year.

We continued optimizing our acquisition risk management models. Particularly for our small loans and auto finance businesses by minimizing the fraudulent risk. In the fourth quarter and going into 2021, we will continue to practice our prudent risk management strategy and get ready to adjust and enhance as needed in light of the macroeconomic and the regulatory environment.

I will conclude my prepared remarks here and give it to the operator. Operator, we are ready for the Q&A.

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Operator^ (Operator Instructions) It seems we don't have any questions from the line. Presenters, you may continue.

Lydia Yu^ I think that we'll end our call today. Thank you.

Operator^ Thank you, Lydia. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now all disconnect.