

FinVolution (FINV US)

3Q20 earnings beat on asset quality recovery

FINV's 3Q20 results surprised on the upside, with net profit increasing 32.0% QoQ/ 0.8% YoY to RMB 603mn. Thanks to better-than-expected asset quality trend, provisions retreated 37.2% QoQ due to significant write-back. We remain optimistic on FINV's earnings outlook as loan volume continue to pick up. Savings from funding and credit costs will partly offset decline in loan pricing, supporting a largely stable margin trend.

- **Shifting to higher-quality user base is paying off.** Growth in registered users/ borrowers was moderate at 2.2%/1.1% QoQ. Repeat borrowing rate stayed elevated at 89.7%, as FINV remained prudent and focused on serving existing clients with lower risk. Facing a challenging macro environment, the Company has been shifting use base to more prime borrowers since 2018. Despite lower pricing, asset quality improved notably. M3+ delinquency rate dropped to 3.4% in 3Q20 from 7.1% in 2Q20, even lower than pre-pandemic level. As such, FINV recognized RMB 690mn write-back of provisions in 3Q20.
- **Loan volume started to pick up.** FINV's 3Q20 loan origination recovered strongly by 29.4% QoQ to RMB 17bn (above previous guidance of RMB 15-16bn) from a low base. Management expected RMB 18-20bn (up 6-18% QoQ) loan origination in 4Q20. Meanwhile, funding cost further declined by 60bp QoQ to 8.2% on favorable supply-demand dynamic.
- **Downside in take rate is manageable.** To avoid potential regulatory risk, FINV has proactively capped interest rate of new loans to 28% IRR since 3Q20. According to management, take rate fell to 3.9% from previous level of 4-5% and will slide to 3.5-3.9% before stabilizing in FY21.
- **No material impact from new microcredit rules.** Management acknowledged that there is little impact from the Provisional Rules for Online Microcredit Business issued on 2 Nov. Loans extended through microcredit license represents <1% of FINV's total loans, and it has no co-lending business.
- **Maintain BUY and TP of US\$2.9.** We raised FY21/22 earnings forecasts by 4.8%/10.3% to reflect assumptions on faster loan growth and lower credit cost. Our TP of US\$2.9 is based on 0.58x target P/B and FY21E BVPADS of RMB34.7.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,544	5,963	7,642	8,965	10,566
Net income (RMB mn)	2,469	2,373	1,992	2,177	2,626
EPADS (RMB)	7.7	7.6	6.6	7.4	8.9
YoY growth	11.1%	-1.0%	-13.0%	11.6%	20.6%
Consensus EPADS (RMB)	NA	NA	4.9	4.3	5.1
P/E (x)	1.8	1.8	2.1	1.9	1.6
P/B (x)	0.73	0.53	0.50	0.40	0.32
Dividend yield	6.8%	5.6%	4.7%	5.1%	6.2%
ROE	51.1%	33.9%	24.0%	22.7%	22.0%

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$ 2.90
(Previous TP	US\$ 2.90)
Up/Downside	+41.5%
Current Price	US\$ 2.05

Internet Finance Sector

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Stock Data

Mkt Cap (US\$ mn)	627
Avg 3 mths t/o (US\$ mn)	2.0
52w High/Low (US\$)	3.01/1.22
Total Issued Shares (mn)	305.9
Source: Bloomberg	

Shareholding Structure

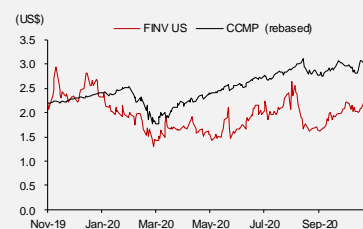
FinVolution Management	40.6%
Seahawk China Dynamic Fund	6.9%
Lightspeed China Partner I	6.6%
SIG China Investments	5.3%
Source: Company data	

Share Performance

	Absolute	Relative
1-mth	-1.0%	-2.9%
3-mth	-14.6%	-20.1%
6-mth	28.1%	-2.9%
12-mth	-31.9%	-51.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

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2. In a defensive posture – 5 Aug 2020

Figure 1: FINV's 3Q20 results summary

(RMB mn)	3Q19	4Q19	1Q20	2Q20	3Q20	QoQ	YoY
Operational indicators							
New registered users (mn)	3.8	3.1	2.4	2.1	2.4	15.3%	-37.3%
New borrowers (mn)	0.9	0.5	0.3	0.2	0.2	-7.8%	-78.2%
Loan origination	24,579	16,896	13,054	13,139	17,000	29.4%	-30.8%
Loan balance	35,000	29,000	23,900	21,000	22,000	4.8%	-37.1%
P&L							
Loan facilitation service fee	1,194	815	557	558	648	16.1%	-45.8%
Interest income	345	317	315	333	261	-21.7%	-24.4%
Guarantee income	-	-	1,150	821	747	-9.0%	NA
Other revenue	53	101	84	98	138	40.1%	158.5%
Total revenue	1,593	1,233	2,106	1,810	1,793	-0.9%	12.6%
Origination and service expense	(332)	(305)	(249)	(272)	(339)	24.4%	2.0%
Sales and marketing expense	(229)	(132)	(91)	(67)	(115)	72.8%	-49.7%
General and admin expense	(125)	(194)	(96)	(102)	(105)	3.3%	-15.6%
Provisions	(149)	(167)	(1,126)	(719)	(452)	-37.2%	202.6%
Other expenses	(108)	-	(88)	(83)	(93)	11.5%	-14.1%
Total opex	(944)	(798)	(1,651)	(1,243)	(1,104)	-11.2%	17.0%
Other gain (loss)	80	35	54	34	26	-23.3%	-67.2%
Income tax	(131)	(57)	(89)	(147)	(118)	-19.7%	-9.4%
Net profit	598	412	419	457	603	32.0%	0.8%
Net profit (Non-GAAP)	607	422	428	463	606	30.9%	-0.3%
Key ratio							
Net revenue take rate (% of avg loans)	17.4%	13.3%	14.8%	19.5%	24.0%	4.6ppt	6.6ppt
Net yield (% of avg loans)	7.2%	5.2%	6.3%	8.1%	10.8%	2.6ppt	3.6ppt
Leverage (loan/equity)	4.6x	3.6x	3.3x	2.8x	2.9x	0.2x	-1.6x
ROE	32.7%	21.1%	22.0%	24.5%	30.7%	6.2ppt	-2.0ppt
M3+ delinquency rate	3.68%	4.91%	7.25%	7.13%	3.40%	-373bp	-28bp

Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Loan facilitation fee	3,842	4,511	2,533	3,540	4,215
Interest income	256	1,107	1,201	1,325	1,613
Guarantee income	69	-	3,448	3,368	3,972
Others	377	345	460	733	767
Total revenue	4,544	5,963	7,642	8,965	10,566
Origination expense	(986)	(1,208)	(1,215)	(1,659)	(1,999)
Marketing expense	(711)	(720)	(426)	(794)	(1,147)
General & admin expense	(383)	(436)	(420)	(462)	(509)
Provisions	(299)	(561)	(2,900)	(3,078)	(3,324)
Others	(318)	(391)	(362)	(442)	(537)
Total expenses	(2,697)	(3,316)	(5,322)	(6,436)	(7,516)
Operating profit	1,847	2,646	2,320	2,529	3,050
Other gain (loss)	774	210	142	125	152
Pre-tax profit	2,621	2,856	2,462	2,654	3,202
Income tax	(151)	(482)	(469)	(478)	(576)
Net income	2,469	2,373	1,992	2,177	2,626

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash and equivalent	1,616	2,325	1,028	1,258	1,603
Net loans	2,331	4,808	3,394	4,126	5,015
Receivables	2,876	4,532	2,261	2,779	3,330
Others	6,319	6,640	9,672	11,777	14,411
Total assets	13,142	18,304	16,356	19,940	24,359
Funding	1,506	3,660	2,546	3,094	3,761
Guarantee liabilities	3,819	4,776	3,738	4,536	5,360
Other liabilities	1,831	1,856	1,478	1,703	1,971
Total liabilities	7,157	10,293	7,762	9,334	11,093
Additional paid-in capital	5,896	5,641	5,656	5,691	5,725
Retained earnings	46	1,967	2,820	4,797	7,423
Others	44	404	118	118	118
Total equity	5,986	8,011	8,594	10,606	13,266

Key operating indicators

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Loans (RMB mn)					
Origination	61,498	82,166	62,793	85,896	103,075
Outstanding balance	24,118	29,000	27,513	33,392	39,597
Growth, YoY					
Loan origination	-6.2%	33.6%	-23.6%	36.8%	20.0%
Loan balance	19.2%	20.2%	-5.1%	21.4%	18.6%
Revenue	15.7%	31.2%	28.2%	17.3%	17.9%
Operating expenses	12.5%	23.0%	60.5%	20.9%	16.8%
Net income	128.0%	-3.9%	-16.0%	9.2%	20.6%
Total assets	52.8%	39.3%	-10.6%	21.9%	22.2%
Total liabilities	45.4%	43.8%	-24.6%	20.3%	18.8%
Total equity	62.6%	33.8%	7.3%	23.4%	25.1%
Margin					
PPoP margin	47.2%	53.8%	68.3%	62.5%	60.3%
Operating margin	40.6%	44.4%	30.4%	28.2%	28.9%
Net profit margin	54.3%	39.8%	26.1%	24.3%	24.8%

Profitability

Revenue / avg loans	20.5%	22.5%	27.0%	29.4%	29.0%
Funding cost	11.0%	9.0%	8.2%	7.8%	7.8%
Origination exp / avg loans	4.4%	4.5%	4.3%	5.4%	5.5%
Marketing exp / avg loans	3.2%	2.7%	1.5%	2.6%	3.1%
G&A exp / avg loans	1.7%	1.6%	1.5%	1.5%	1.4%
Net income / avg loans	11.1%	8.9%	7.1%	7.1%	7.2%
Loans / equity	4.0	3.6	3.2	3.1	3.0
Assets / equity	2.2	2.3	1.9	1.9	1.8
ROA	22.7%	15.1%	11.5%	12.0%	11.9%
ROE	51.1%	33.9%	24.0%	22.7%	22.0%

Per ADS data (RMB)

EPADS	7.7	7.6	6.6	7.4	8.9
BVPADS	19.1	26.2	28.1	34.7	43.4
DPADS	0.95	0.78	0.65	0.71	0.86

Source: Company data, CMBIS estimates

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