

FinVolution (FINV US)

Soft new loans but asset quality a bright spot

FINV reported 2Q20 non-GAAP net profit of RMB 462mn, up 7.9% QoQ/down 31.3% YoY, in line with our forecast. With a defensive strategy amid macro downturn, loan origination stayed flat QoQ. On the positive side, asset quality trend was solid with peak-out in M3+ delinquency. We believe FINV's proactive loan pricing adjustments to comply with 15.4% nominal APR cap will greatly reduce regulatory risks, therefore is positive for valuation. **Maintain BUY with higher TP of US\$3.30.**

- **Loan growth remained subdued.** FINV's 2Q20 loan origination was flat QoQ at RMB 13.1bn (+0.7% QoQ/ -39.2% YoY). Management expected RMB15-16bn (+15-22% QoQ) volume growth in 3Q20 and similar amount in 4Q20, given the adjustments in loan pricing and customer mix.
- **User base largely stable.** Total registered users/borrowers grew moderately by 1.9%/1.2% QoQ. As FINV put more efforts on serving existing customers with lower risks, repeat borrowing rate climbed 4.1ppt QoQ to 92.4%.
- **Asset quality improved notably,** after FINV's conservative strategy to tighten loan approval and shift to higher-quality borrowers. Latest D1 delinquency has dropped to 7.5%, from 9.7% in May and 12.4% in 4Q19. Considering 30-40% lower M2-M3 delinquency rates for loans extended in 1Q20 vs 1Q19, management expected vintage loss to fall below 4.5% by year-end.
- **New loans all capped at 15.4% nominal APR.** Although Supreme Court's interest cap for private lending is not compulsory for financial institutions at this juncture, FINV mentioned during results briefing that they have proactively adjusted down pricing for new loans to max 15.4% APR (22-27% IRR for different tenor). This, in our view, should ease regulatory overhang, despite a pressure on near-term profitability. Management believed lower funding cost and well-controlled asset quality could mitigate earnings impact.
- **Up to US\$60mn new share repurchase plan.** FINV announced on 25 Aug to expand its original US\$120mn share repurchase program (US\$111mn deployed as of 24 Aug 2020), by adding another US\$60mn quota effective until Dec 2021. This could somewhat boost investment sentiment, as management showed confidence in the Company's business outlook.
- **Maintain BUY and raise TP to US\$3.30.** We cut FY20/21 earnings forecast by 9.0%/19.3% to factor in lower assumptions for loan origination, pricing, and funding cost (Figure 2). However, we reduced COE assumption to reflect lower regulatory/credit risks. Our revised TP of US\$3.3 is based on 0.7x target P/B and FY21E BVPADS of RMB33.4.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-----------------------|-------|-------|--------|-------|--------|
| Revenue (RMB mn) | 4,544 | 5,963 | 7,706 | 8,703 | 10,117 |
| Net income (RMB mn) | 2,469 | 2,373 | 1,607 | 1,967 | 2,294 |
| EPADS (RMB) | 7.7 | 7.6 | 5.2 | 6.4 | 7.5 |
| YoY growth | 11.1% | -1.0% | -31.6% | 22.4% | 16.7% |
| Consensus EPADS (RMB) | NA | NA | 4.7 | 4.9 | 5.9 |
| P/E (x) | 2.2 | 2.2 | 3.2 | 2.6 | 2.3 |
| P/B (x) | 0.88 | 0.64 | 0.61 | 0.50 | 0.41 |
| Dividend yield | 5.6% | 4.6% | 3.1% | 3.8% | 4.5% |
| ROE | 51.1% | 33.9% | 19.6% | 21.2% | 20.2% |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **US\$ 3.30**
 (Previous TP **US\$ 2.90**)
 Up/Downside **+37.5%**
 Current Price **US\$ 2.40**

Internet Finance Sector

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Stock Data

| | |
|--------------------------|-----------|
| Mkt Cap (US\$ mn) | 734 |
| Avg 3 mths t/o (US\$ mn) | 3.2 |
| 52w High/Low (US\$) | 4.03/1.22 |
| 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% |

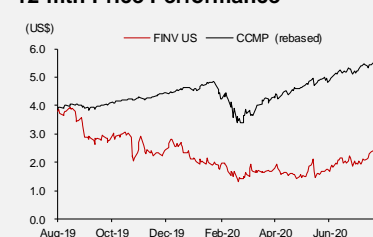
Source: Company data

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | 29.7% | 17.2% |
| 3-mth | 67.8% | 36.5% |
| 6-mth | 35.6% | 6.0% |
| 12-mth | -34.8% | -55.9% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

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Figure 1: FINV's 2Q20 results summary

| (RMB mn) | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | QoQ | YoY |
|--|--------------|--------------|--------------|----------------|----------------|---------------|---------------|
| Operational indicators | | | | | | | |
| New registered users (mn) | 5.2 | 3.8 | 3.1 | 2.4 | 2.1 | -13.5% | -59.7% |
| New borrowers (mn) | 1.1 | 0.9 | 0.5 | 0.3 | 0.2 | -15.6% | -80.2% |
| Loan origination | 21,611 | 24,579 | 16,896 | 13,054 | 13,139 | 0.7% | -39.2% |
| P&L | | | | | | | |
| Loan facilitation service fee | 1,256 | 1,194 | 815 | 557 | 558 | 0.1% | -55.6% |
| Interest income | 274 | 265 | 317 | 315 | 333 | 5.8% | 21.4% |
| Guarantee income | - | - | - | 1,150 | 821 | -28.6% | NA |
| Other revenue | 112 | 53 | 101 | 84 | 98 | 17.2% | -12.3% |
| Total revenue | 1,642 | 1,512 | 1,233 | 2,106 | 1,810 | -14.0% | 10.3% |
| Origination and service expense | (307) | (332) | (305) | (249) | (272) | 9.1% | -11.3% |
| Sales and marketing expense | (215) | (229) | (132) | (91) | (67) | -26.8% | -69.0% |
| General and admin expense | (103) | (233) | (194) | (96) | (102) | 5.9% | -0.6% |
| Provisions | (148) | (69) | (167) | (1,126) | (719) | -36.2% | 385.8% |
| Other cost and expense | (102) | - | - | (88) | (83) | -4.8% | -17.9% |
| Total operating expenses | (874) | (863) | (798) | (1,651) | (1,243) | -24.7% | 42.2% |
| Other gain (loss) | 46 | 80 | 35 | 54 | 34 | -36.2% | -25.0% |
| Income tax | (153) | (131) | (57) | (89) | (147) | 65.4% | -3.5% |
| Net profit | 661 | 598 | 412 | 419 | 457 | 8.9% | -30.9% |
| Net profit (non-GAAP) | 672 | 607 | 422 | 428 | 462 | 7.9% | -31.3% |
| Key ratios | | | | | | | |
| Net revenue take rate (% of avg loans) | 20.4% | 17.4% | 13.3% | 14.8% | 18.4% | 3.5ppt | -2.0ppt |
| Net yield (% of avg loans) | 9.0% | 7.2% | 5.2% | 6.3% | 7.7% | 1.3ppt | -1.3ppt |
| Leverage (loan/equity) | 4.5x | 4.6x | 3.6x | 3.3x | 3.2x | -0.1x | -1.3x |
| ROE | 39.7% | 32.7% | 21.1% | 22.0% | 24.8% | 2.8ppt | -14.9ppt |
| M3+ delinquency rate | 3.66% | 3.68% | 4.91% | 7.25% | 7.13% | -12bp | 347bp |

Source: Company data, CMBIS

Figure 2: Change in assumptions and earnings forecast

| | Loan origination (RMB bn) | | | Loan pricing (IRR) | | | Funding cost | | | Net profit (RMB mn) | | |
|--------------|---------------------------|------|--------|--------------------|-----|--------|--------------|------|---------|---------------------|-------|--------|
| | Old | New | Change | Old | New | Change | Old | New | Change | Old | New | Change |
| FY20E | 62.9 | 58.2 | -7.4% | 34% | 31% | -3ppt | 8.8% | 8.2% | -0.6ppt | 1,766 | 1,607 | -9.0% |
| FY21E | 82.0 | 74.7 | -9.2% | 32% | 27% | -5ppt | 8.5% | 7.8% | -0.7ppt | 2,437 | 1,967 | -19.3% |

Source: CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| Loan facilitation fee | 3,842 | 4,511 | 2,619 | 3,603 | 4,614 |
| Interest income | 256 | 1,107 | 1,155 | 1,179 | 1,438 |
| Guarantee income | 69 | - | 3,569 | 3,473 | 3,658 |
| Others | 377 | 345 | 364 | 447 | 407 |
| Total revenue | 4,544 | 5,963 | 7,706 | 8,703 | 10,117 |
| Origination expense | (986) | (1,208) | (981) | (1,087) | (1,308) |
| Marketing expense | (711) | (720) | (385) | (547) | (657) |
| General & admin expense | (383) | (436) | (668) | (735) | (809) |
| Provisions | (299) | (561) | (3,480) | (3,696) | (4,255) |
| Others | (318) | (391) | (350) | (416) | (506) |
| Total expenses | (2,697) | (3,316) | (5,865) | (6,482) | (7,534) |
| Operating profit | 1,847 | 2,646 | 1,841 | 2,221 | 2,583 |
| Other gain (loss) | 774 | 210 | 158 | 163 | 198 |
| Pre-tax profit | 2,621 | 2,856 | 2,000 | 2,384 | 2,781 |
| Income tax | (151) | (482) | (392) | (417) | (487) |
| Net income | 2,469 | 2,373 | 1,607 | 1,967 | 2,294 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash and equivalent | 1,616 | 2,325 | 1,437 | 2,210 | 2,890 |
| Net loans | 2,331 | 4,808 | 3,933 | 4,780 | 5,810 |
| Receivables | 2,876 | 4,532 | 4,018 | 4,882 | 5,880 |
| Others | 6,319 | 6,640 | 8,694 | 10,526 | 12,513 |
| Total assets | 13,142 | 18,304 | 18,082 | 22,399 | 27,094 |
| Funding | 1,506 | 3,660 | 2,885 | 3,506 | 4,262 |
| Guarantee liabilities | 3,819 | 4,776 | 5,401 | 6,911 | 8,137 |
| Other liabilities | 1,831 | 1,856 | 1,422 | 1,769 | 2,156 |
| Total liabilities | 7,157 | 10,293 | 9,708 | 12,186 | 14,555 |
| Additional paid-in capital | 5,896 | 5,641 | 5,663 | 5,695 | 5,727 |
| Retained earnings | 46 | 1,967 | 2,429 | 4,235 | 6,529 |
| Others | 44 | 404 | 282 | 282 | 282 |
| Total equity | 5,986 | 8,011 | 8,374 | 10,212 | 12,539 |

Key operating indicators

| YE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|-----------------------|--------|--------|--------|--------|--------|
| Loans (RMB mn) | | | | | |
| Origination | 61,498 | 82,166 | 58,221 | 74,451 | 89,341 |
| Outstanding balance | 24,118 | 29,000 | 30,230 | 43,173 | 58,307 |
| Growth, YoY | | | | | |
| Loan origination | -6.2% | 33.6% | -29.1% | 27.9% | 20.0% |
| Loan balance | 19.2% | 20.2% | 4.2% | 42.8% | 35.1% |
| Revenue | 15.7% | 31.2% | 29.2% | 12.9% | 16.3% |
| Operating expenses | 12.5% | 23.0% | 76.9% | 10.5% | 16.2% |
| Net income | 128.0% | -3.9% | -32.3% | 22.4% | 16.7% |
| Total assets | 52.8% | 39.3% | -1.2% | 23.9% | 21.0% |
| Total liabilities | 45.4% | 43.8% | -5.7% | 25.5% | 19.4% |
| Total equity | 62.6% | 33.8% | 4.5% | 21.9% | 22.8% |
| Margin | | | | | |
| PPoP margin | 47.2% | 53.8% | 69.0% | 68.0% | 67.6% |
| Operating margin | 40.6% | 44.4% | 23.9% | 25.5% | 25.5% |
| Net profit margin | 54.3% | 39.8% | 20.9% | 22.6% | 22.7% |

Profitability

| | | | | | |
|-----------------------------|-------|-------|-------|-------|-------|
| Revenue / avg loans | 20.5% | 22.5% | 26.0% | 23.7% | 19.9% |
| Funding cost | 11.0% | 9.0% | 8.2% | 7.8% | 7.8% |
| Origination exp / avg loans | 4.4% | 4.5% | 3.3% | 3.0% | 2.6% |
| Marketing exp / avg loans | 3.2% | 2.7% | 1.3% | 1.5% | 1.3% |
| G&A exp / avg loans | 1.7% | 1.6% | 2.3% | 2.0% | 1.6% |
| Net income / avg loans | 11.1% | 8.9% | 5.4% | 5.4% | 4.5% |
| Loans / equity | 4.0 | 3.6 | 3.6 | 4.2 | 4.7 |
| Assets / equity | 2.2 | 2.3 | 2.2 | 2.2 | 2.2 |
| ROA | 22.7% | 15.1% | 8.8% | 9.7% | 9.3% |
| ROE | 51.1% | 33.9% | 19.6% | 21.2% | 20.2% |

Per ADS data (RMB)

| | | | | | |
|--------|------|------|------|------|------|
| EPADS | 7.7 | 7.6 | 5.2 | 6.4 | 7.5 |
| BVPADS | 19.1 | 26.2 | 27.4 | 33.4 | 41.0 |
| DPADS | 0.95 | 0.78 | 0.53 | 0.64 | 0.75 |

Source: Company data, CMBIS estimates

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| | |
|------------------|---|
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|-----------------------|---|
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