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+++ presentation

Operator^ Good day, and thank you for standing by. Welcome to the Yiren Digital Second Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your first speaker for today, Ms. Lydia Yu, please go ahead, ma'am.

Lydia Yu^ Thank you. Today's call features the presentation by the Founder, Chairman and CEO of CreditEase; our CEO, Ms. Ning Tang; our SVP, Ms. Mei Zhao; and our CFO, Ms. Na Mei.

Before beginning, we would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provision for U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and factors that can cause actual results to differ materially from those contained in any such statements.

Further information regarding potential risks, uncertainties or factors is included in the company's filings with the U.S. Securities and Exchange Commission. We do not undertake any obligation to update any forward-looking statements 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'll now pass it on to Ning for opening remarks.

Ning Tang^ Thank you all for joining us today. We are very pleased to deliver another solid quarter with continued improvement in profitability and increasingly diversified revenue mix as we further navigate Yiren Digital to become a leading user-centric personal financial management platform.

As we continue to strengthen our competitive edges and drive up our business scale, we have developed sophisticated strategies for both our

wealth management and credit businesses. For wealth management, we are further differentiating ourselves by upgrading our services and enriching our product offerings. For example, in the second quarter, we started to offer retirement plans and services, partnering with the leading global investment management company, principle, which received immediate popularity since launch. And as we further dive into the retirement financial market, our new products and services would help enhance our customers' LTV. Moreover, we are enhancing our capabilities to serve customers with higher investable assets and to the number of users who invested more than RMB 0.5 million in one single transaction on our platform this quarter increased by 126% compared with last quarter.

Meanwhile, for our credit business, we are focusing on high-quality growth and continue to take a proactive approach to transition our target borrower segment into higher-credit quality borrowers, paving the way for the launch of our increasingly diversified products in the future. Secondly, we are deepening our deployment in small business markets in the second half of 2021 and will further diversify product mix by increasing SME loans. Last but not least, as the user-centric financial management platform, we are making continued efforts to integrate our different business lines and service scenarios, addressing the comprehensive financial needs of each customer. For example, we are offering suitable insurance products to our borrowers to better protect them and their families, which Mei will talk about later. Through the strategies and moves mentioned above, we believe that Yiren Digital is well positioned to expand its business as the leading personal financial management platform.

Now I will provide a business update on our wealth management side before passing it over to Mei to give an update on our credit business.

Our wealth management business continues to see visible growth this quarter. Client assets for investment products reached RMB 14.7 billion as of June 30, 2021, representing an increase of 37% quarter-over-quarter. Total number of active investors stood at 386,000 as of June 30, 2021, representing an increase of 26% from last quarter. Meanwhile, the average client asset per investor further increased by 17% quarter-over-quarter to close to RMB 100,000 and the number of investors who held more than 2 asset classes on our Yiren Wealth platform grew by 420% from prior year, reflecting a concrete improvement in our customers' overall LTV. On investor acquisition, we continue to invest in our brand to increase recognition and customer engagement. On May 28, our live anniversary program was joined by 20% of our active investors, which is a vivid reflection of our high customer engagement and loyalty.

It's worth mentioning that our fund products became one of the key growth drivers this quarter. Specifically, our retirement FOF products enjoyed an immediate success right after its launch in June, which contributed RMB 23 million transaction volume within just 23 days. Moreover, our recently-launched new version of Mubiao Ying (目标盈) fund portfolio products that offer more flexible target returns were also well received among investors, with sales volume increasing by 80% compared with last quarter.

Next, onto our insurance business, Hexiang Insurance Brokers, The business growth remains strong. In the second quarter of 2021, total premiums were approximately RMB 570 million, up more than 130% quarter-over-quarter. For Hexiang, we are focused on growing through our closed-loop 2B2C strategy in which post serving our corporate clients and fulfilling their insurance needs. We then leverage our insurance capabilities and provide customized and targeted insurance products to their clients and customers, transitioning our corporate customers into partner channels, helping them unlock a completely new revenue stream and at the same-time, finding new customers with unmet insurance needs.

Lastly, our digital stock brokerage platform, China Glory Securities, was officially launched this quarter, which is a meaningful milestone for us to establish a full spectrum wealth management product matrix and to bring strong synergies into our wealth management ecosystem. The platform targets both mass affluent and high-net-worth customer segments and currently we offer both Hong Kong and the U.S. stocks, ETFs and REITs, with more services and products to hit the shelf soon. Meanwhile, we believe that investing in investor education is core to drive business growth. That's why we have created a variety of educational content, with something suitable for investors at each stage of their investing journey, including daily and weekly live-stream sessions to review market performance as well as trending topics and the daily digestible financial news. On customer acquisition, in addition to strong support from our wealth management ecosystem, we are also focusing on 2B2C strategy, with over 10 partner channels already in our pipeline.

With that, I will now turn the call over to Mei, who will highlight key updates for our credit business this quarter.

Mei Zhao^ Thanks, Ning. This is Mei Zhao. Hello everyone. Now before I go through the operational highlights of our credit business, I would like to share our response to the recent regulatory developments and to echo what Ning just mentioned about our initiative in credit business strategies.

As of the end of July, a window guidance came out from local financial regulators requiring a financial institution to cap the APR of the customer loans at 24%.

We think that is potential new requirement is beneficial for the industry as it completely eliminates the markets' long-lingering concern over APR and pricing. In response, since the last year, we have preemptively transitioning our target customer segment to higher credit-quality borrowers through implementing targeted credit products, including APR, 18% to 24% as well as the interest-free loan products. In addition, to echo government's focus on supporting small and micro businesses, starting from the second half of this year, we will further expand our SME segment to better promote inclusive finance. Historically, we have been serving small business owners for years and have accumulated rich experience and expertise in product design, customer acquisition and servicing. Coupled with our strong technology capabilities and efficient channel partners, we expect to see the meaningful growth in this segment.

Now I will provide an update on our credit business for this quarter.

We saw a stable business growth in the second quarter as we are making strategic transitions aimed regulatory changes. Loan volume under loan-facilitated model in the second quarter stood at RMB 5.3 billion, representing an increase of 7% from the last quarter of 245% from the same period last year. Total number of the borrowers served in the second quarter reached more than 434,000, an increase of 25% quarter-over-quarter and 304% year-on-year.

Meanwhile, our product's unit economics continue to improve as we enhance our operating efficiency. We continue to see declining trends in our acquisition cost as our repeat borrowing rate increases and as our product and service offering broaden.

Moreover, we have seen visible progress in cross-selling insurance products to our borrower base. Total premiums contributed by borrowers in the second quarter saw a 55% increase compared with the last quarter and the demand remains strong. To iterate our positioning as a user-centric personal financial management platform, we provide customized Services "by user, not by loan", which means that we value each of our customers' comprehensive demand for financial services and dynamically explore different needs and to serve them accordingly, enhancing our customers' LTV.

On funding, we continue to focus on expanding our funding partners, and we received an additional RMB 10 billion in credit line this quarter with another 20 financial institutions in our pipeline.

Lastly, on risk performance, we have seen a stable and improving asset quality. At the end of June 30, 2021, the delinquency rate for loans originated that are past due for 15 to 29 days, 30 to 59 days and 60 to 89 days were 0.5%, 0.8% and 0.7% respectively, remaining at our historical lowest levels. As we continue to upgrade our customer segment, we expect our asset quality continue to improve throughout the year.

With that, I will now pass it to our CFO, Na, who will provide this quarter's financial update.

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

Firstly, on our operating highlights. For our wealth management business, as of June 30, 2021, we have cumulatively served more than 2.1 million investors and the number of active investors this quarter continued to grow to 385,536, increasing by 26% from last quarter. Client asset in our investment products climbed to RMB14,7million as of June 30, 2021, representing a visable growth of 37% from last quarter.

On the credit side, total loan facilitated in the second quarter reached CNY 5.3 billion, showing a 7% increase quarter-over-quarter. The number

of borrowers serviced this quarter stood at 434,153, representing an increase of 25% from last quarter.

Now on to our financials. In the second quarter, total revenue increased by 49% year-on-year to CNY 1.1 billion, of which 25% came from our wealth management business. Due to enhanced cost control and operating efficiencies, total net income in the second quarter grew by 10% quarter-over-quarter, reflecting a health net income margin of 18%.

Total operating expenses decreased by 17% year-on-year to CNY 0.8 billion. Sales and marketing expense decreased by 14% from prior year to CNY 437 million, driven by improved customer acquisition efficiencies. Our original and service expense increased 11% from prior year to CNY 183 million, mainly due to the continued expansion of our insurance business.

Allowance for contract assets, receivables and others was CNY 93 billion this quarter, equivalent to 1.8% of loan volume as compared to 2.9% last quarter. The decline was largely driven by improved asset quality and the change of product mix.

On the balance sheet side, our cash position remains strong with RMB 2.2 billion of cash and cash equivalents as of June 30, 2021. Our strong balance sheet positions us well in the current operating environment and provides us with sufficient resilience to continue exploring new initiatives and new opportunities, and to meet any new capital requirement that may come.

This concludes our closing remarks. Operator, we are waiting for Q&A.

+++ q-and-a

Operator^ (Operator Instructions) First question is from the line of Cindy Wang of DBS.

Cindy Wang^ Congrats for the great quarter. I have 3 questions, if I may. My first question is related to wealth management. Since sales volume of investment product was slightly slowing down from first quarter this year, could we know what's the reasoning behind it? Is that because of seasonal effect or listing product adjustment on the platform?

Besides that, fee rate for wealth management product is also down sequentially. Is that because investors subscribe more lower fee rate of products on the platform or any other reasons behind it? So entering in second half of this year, how do we expect the trend of sales volume and the fee rate?

My second question is related to insurance. Since lately, regulators have issued an announcement related to the inspection of selling insurance products online. Any process you have taken? And is that going to impact your insurance sales in second half of this year?

And the last question is related to consumer credit. Could we have the breakdown of auto loan and small revolving loan ratio? Since you highlighted that you will expand to the SME segment to better promote

inclusive financing in second half of this year. So do you have any loan mix target that you could share to us among the auto loan, SME loan and a small revolving loan?

And besides that, since the take rate for consumer credit further came down in the second quarter. So I think it's mainly because you acquire better quality borrowers, which APR is lower. Since window guidance has been capped APR at 24%, how do we see take rate in second half of this year and going forward?

Ning Tang^ Thank you for your 3 questions. I will have our CFO Na answer the first question regarding wealth management business fee rate and so on. And then our wealth management business ahead Xiao is also online who can cover the second question regarding insurance regulatory update, and also, if she may comment on wealth management. And then the third question will be covered by Mei Zhao. Please?

Na Mei^ Okay. Thank you, Ning. For the first question, okay, I will answer why the fee rate for our wealth investment is down compared to the last quarter. It's mainly due to the mix of the products, mainly due to the (inaudible) in the first quarter and the last -- the first quarter, the main products of insurance is from life insurance for the people alive. And so the channel commission from the insurance company is higher about general 17% or 18%. But in the second quarter of this year, the main insurance products is about the assets. So for the asset's insurance planning level is lower than the life. And generally commission channel is about 14% to 15% from the insurance company. So that is the reason why the fee rate down for our wealth management. It's mainly due to the product (inaudible).

Ning Tang^ Thank you. And Ms. Xiao, you will talk about the insurance policy. (inaudible)? Hello?

Na Mei^ Okay. This is Na. Okay. Xiao is going on to the online. I will answer this question. And for this -- for the regulation of our insurance, before that, I will confirm what are our internal and external [hours]. And we think that the mainly -- insurance regular is mainly about the online insurance service. But for our Hexiang, it's also mainly off-line. So from our (inaudible), we don't think they have any new regular to our insurance business. Yes.

Ning Tang^ Yes, I echo that, and we don't see any negative impact on how we do our insurance business. And Mei, can you please answer the third question.

Mei Zhao^ This is Mei. I think for the credit business, I think for the SME, we have been involving the auto loan business for a quite year. And some of the customers, they -- actually they are just SME owner. So I think for our SME, we have a lot of -- [over] to customer, we treat them as a different product (inaudible) lower the product from the better customer performance. So I think that the percentage is 22% to 30%. I think as we continue to expand our old customer segment, I think as a percentage is improving to [50%]. So I think the -- that's why our asset quality is better and better, I think.

Operator^ As there are no further questions at this time, management, discontinue.

Lydia Yu^ Thank you, everyone, for joining our call. This concludes our call for today. Thank you.

Ning Tang^ Thank you.

Operator^ Thank you. Ladies and gentlemen, this concludes today's conference call, and thank you for participating. You may now all disconnect.