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YRD - Q2 2019 Yirendai Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Yirendai Second Quarter 2019 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 your first speaker today, Ms. Lydia Yu. Thank you. Please go ahead.

Lydia Yu - *Yirendai Ltd. - IR Director*

Thank you, and welcome to Yirendai's Second Quarter 2019 Earnings Conference Call. Today's call features a presentation by the Founder, Chairman and CEO of CreditEase and CEO of Yirendai, Mr. Ning Tang; our Senior VP of Corporate Business Development, Mr. Dennis Cong; our Board Director and CRO, Mr. Huan Chen. Ms. Wei Wang, our CEO of Yiren Credit; Mr. Xiao Shang, our CEO of Yiren Wealth; and Ms. Joanne Liu, our CFO of Yirendai, 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 and 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 Yirendai's filings with the U.S. Securities and Exchange Commission. Yirendai 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 to U.S. GAAP. For information about these non-GAAP measures and reconciliation to GAAP measures, please refer to our earnings press release.

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

Ning Tang - *Yirendai Ltd. - Executive Chairman & CEO*

Thank you all for attending our second quarter 2019 earnings conference call. I'm pleased to announce that we have achieved another solid quarter of operation in both Credit and Wealth Management businesses. In particular, we gained strong momentum in working with our bank partners to diversify our funding sources. This quarter, on the credit side, quarter-over-quarter loan originations remained flat as we maintained our focus on asset quality. As of September 2019, the line of credit we have obtained from our institutional partners has increased from RMB 19 billion in Q1 2019 to close to RMB 30 billion. We are now working with approximately 10 partners, including leading joint stock and city commercial banks. We expect loan origination funded by institutional partners to reach approximately 30% by the end of this year.



In addition, we have also started to gain access to PBOC credit system through our institutional funding partners, which will not only allow us to obtain detailed credit report on a real-time basis to enhance our loan application underwriting efficiency but will also significantly improve our delinquency management and collection efforts. To further expand our institutional relationships, we have started to offer online lending solutions to our bank partners. We have delivered our first online lending enabling solution to Bank of Ningxia, in which using our fintech expertise in online lending and risk management, qualified customers can easily apply for and obtain a loan online through the bank's mobile app. In the second half of 2019, we will focus on high-quality asset growth, expanding institutional partnerships as well as diversifying our product portfolio to better serve the consumption needs of our borrowers.

On Wealth Management, I'm pleased to note that we've achieved significant milestones this quarter. We launched our new brand, Yiren Wealth, this July as part of our rebranding campaign. We also released a detailed asset allocation guide for the mass affluent population, a first in China. The guide is based on experience and knowledge that we've accumulated in the wealth management industry over the past 10 years. This year, a top strategic initiative for us is driving GMV of non-P2P products, including bank wealth management products, mutual funds and insurance. I'm pleased to note that in just over 60 days, our GMV for bank wealth management products passed RMB 100 million mark. For mutual funds, we newly launched various mutual fund portfolios targeted for different investor needs.

In the first half of 2019 compared to 2018, we noted a significant transition in the investment of money market funds to mutual fund portfolios. In insurance, we have started to offer more one-on-one consultation and have noted an increase in longer-term and larger ticket size insurance products. We expect to see further traction of our investors' AUM into non-P2P products.

Finally, on regulatory update, we have increased our registered capital to RMB 1 billion to prepare ourselves for the potential upcoming regulatory trial program. At the same time, we will also explore opportunities to strategically invest or acquire financial licenses to hedge regulatory uncertainties.

Thank you all. Now I will turn the call over to Dennis, our Senior VP of Corporate Development, to review our second quarter's business results.

Yu Cong - Yirendai Ltd. - Senior VP of Corporate Development

Thanks, Ning. Hello, everyone. On the credit business side, total volume of loan origination for the quarter was RMB 9.7 billion, with about 35.9% of loan volume coming from repeat borrowers. In terms of product mix, about 97.9% of the loan sales are unsecured consumer loans and the rest are secured loans and SME lending. The cumulative number of registered borrowers we served reached 83 million, and cumulative number of borrowers served is close to 4.5 million as of June 30, 2019. On institutional funding, currently close to 20% of new loan origination are funded through bank partners, and we expect that close to 30% of loans originated to be funded by our institutional partners by the end of the year.

Our Wealth Management business, as of June 30, 2019, we have served close to 2.2 million investors cumulatively. Total number of active investors in second quarter of 2019 was close to 680,000 with total AUM for Yiren Wealth at CNY 43.6 billion as of June 30, 2019. Average AUM per investor reached CNY 149,000, and average investment term for P2P product has increased to 15.1 months, indicating a highly sticky and loyal investor base despite persistent industry uncertainty.

We're also seeing good traction with non-P2P wealth management products. AUM of non-P2P products was CNY 354 million in the second quarter of 2019. In the third quarter of 2019, we will launch a pilot telemarketing program to provide professional investment, insurance and wealth management advice to our investors to further grow our non-P2P business.

For our financial update, I'll focus on the key items of our business operation and financial performance, and you can refer the detailed financial results to our earnings release. Total net revenue was CNY 2.2 billion during the quarter. Net revenue take rate, which refers to total net revenue net of allowance for contract assets, is 17.7% for second quarter 2019 as compared to 16.4% in the last quarter. The increase in revenue take rate is mainly due to our product mix shift as well as some of the Wealth Management business we assumed through the Ocean acquisition.

This quarter, we maintain our contribution to the credit assurance program at 14% to ensure adequate coverage. Our credit assurance fund is funded with a total balance of CNY 7 billion as of June 30, 2019, which is equivalent to 13% of total performing loans covered by the credit assurance program.

On the balance sheet side, as of June 30, 2019, our cash and cash equivalents were CNY 2.7 billion. The balance of held-to-maturity investments were CNY 9.5 million, and the balance of available-for-sale investment were CNY 387.5 million. As of June 30, 2019, our usable cash maintained at a healthy level, CNY 3.1 billion.

For business outlook, the uncertain industry environment makes it difficult to provide an accurate outlook for loan origination for the full year. However, we do expect loan origination to ramp up in the third and fourth quarter of 2019 as institutional funding increased.

Now I will pass on to Huan, our CRO and Board of Director, for update on our risk business.

Huan Chen - Yirendai Ltd. - Chief Risk Officer & Director

Thanks, Dennis. On credit performance and risk management side, we saw slight volatilities in early delinquency this quarter due to industry environment as well as declining loan balance. Our latest data shows that the risk performance of new loans originated post to Q3 2018 continuously improved with M3+ net charge-off rate declining in the second half of 2018 due to implementation of more stringent risk policies in August of last year. To stabilize risk levels, we have been actively managing our product portfolio to reduce risk of exposure and using more data sets to lower borrowers' over-indebtedness risk.

This quarter, we successfully [made implementations] to collect back defaulted loans. We also expect our risk performance will keep improving. We'll be using more institutional funding, which makes PBOC credit bureau data availability for underwriting.

This concludes our prepared remarks. We are ready for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Joey Xu from Morgan Stanley.

Joey Xu - Morgan Stanley, Research Division - Research Associate

I have 2 questions. The first question, can the management share some more information on the online lending solution for Ningxia Bank? Like what kind of services are included in this package? And any other banks we're negotiating at this moment regarding to this kind of business? And when does the management expect to see some meaningful revenue contribution from this business segment? And my second question is on the regulatory front. As I noticed in a report that we have raised the registration capital to CNY 1 billion. And is there anything else we need to do to get prepared for registration? And any other updates from the regulator or -- yes, any other updates from the regulator recently?

Ning Tang - Yirendai Ltd. - Executive Chairman & CEO

Let me first address the regulatory environment question. Yes, and we've increased our registered capital in preparation for upcoming now it's called a trial program, yes, not registration, but it's similar, meaning a regulatory system for online lending industry. And we've been -- we believe we've been in full compliance since -- yes, when the regulatory measures came out. And we are ready for this trial program, and we expect it will be later this year or next year.



Huan Chen - Yirendai Ltd. - Chief Risk Officer & Director

And for Bank of Ningxia cooperation, when we met them 1 year ago, we -- they had very strong demand to the consumer lending business online, and they talked with us on to -- for us to providing the whole package, the turnkey solutions for them to do this online consumer lending. So we're providing the whole system, the whole underwriting [calculation] and the whole life cycle management capabilities to this Bank of Ningxia to their online lending.

[And so this is] online in early this year and after several months of testing in Q3 this year, they already -- they start to do more marketing for risk products and we see very significant increase of the sales volumes in Q3 this year. And they control that. They are also -- they also want to do more marketing for risk products and make it some big consumer loan product for their customers. And currently, we -- because this is also new business for us, so we will take more [actions] focusing on optimize and improve our capabilities to cooperate with the banks. So probably we -- Bank of Ningxia is only bank partners for us to providing these [products].

Yu Cong - Yirendai Ltd. - Senior VP of Corporate Development

So from a revenue contribution perspective, the collaboration with Ningxia Bank is more a strategic approach. We will not look for revenue volume for this business but rather build relationships so that we can bring Ningxia Bank as our institutional funding partners. So the service itself won't be a significant revenue contribution but rather, potentially build a stronger strategic relationship with the bank institutions that will really help us when we expand our funding sources into these leading banks.

Operator

(Operator Instructions) Your next question comes from the line of Alex Ye from UBS.

Alex Ye - UBS Investment Bank, Research Division - China Financials Research Associate

I have a question on asset quality outlook. So we have seen year-to-date many banks have commented that they are seeing an uptick in their credit card quality within the whole industry due to the increasing risk of borrowers taking multiple loans from different sources. I'm wondering is there any new trend that we have seen in this front. And given many of our borrowers probably share the same credit [risk take with those] of the bank customers, like they're also credit cardholders, so I wonder if there's any measure we can take to better control the asset quality and potential deterioration in asset quality.

Huan Chen - Yirendai Ltd. - Chief Risk Officer & Director

Yes. I think last year, we already feel that there might be some deteriorating in the industry environment. So in Q3 last year, we already started to take more stringent risk quality control. And so we do see there's some market risk and that's -- and more and more borrowers are taking multiple loans from different lenders, and some borrowers may go into trouble in over-indebtedness. So we take some more data fact, including we're also accessing to the national income and financial association. They have a data sharing platform. We're also taking this data from that platform to identify the quality of the number of the loans they borrow -- are taken in recent 1 month, 3 months. So we will actively -- proactively reject some of the borrowers who take too much loans and who make too many applications in different platforms. So as well we do see some improvement. Since Q3 last year, we see early delinquency rate based on delinquency data. The delinquency rate -- delinquency data is decreasing. So that give us more confidence that we can keep our risk performance and our asset quality flat and it can be even better in second half of this year.

Operator

(Operator Instructions) There are no further questions at this time. I would like to hand the conference back to today's presenters. Please continue.



Lydia Yu - Yirendai Ltd. - IR Director

Thanks, everyone, for joining us. This concludes our call for today.

Operator

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

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