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Q4 2020 360 DigiTech Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 360 DigiTech Fourth Quarter 2020 Earnings Conference Call. Please also note that today's event is being recorded.

At this time, I'd like to turn the conference call over to Ms. Mandy Dong, IR Director. Please go ahead, Mandy.

Mandy Dong 360 DigiTech, Inc. - IR Director

Thank you. Hello, everyone, and welcome to our fourth quarter and full year 2020 earnings conference call. Our results were issued earlier today and can be found on our IR website. Joining me today are Mr. Wu Haisheng, our CEO and Director; Mr. Alex Xu, our CFO and Director; and Mr. Zheng Yan, our CRO.

Before we begin the prepared remarks, I'd like to remind you of the company's safe harbor statement. Except for historical information, the material discussed here may contain forward-looking statements based on our current trends, estimates and projections. Therefore, you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. We caution that a number of important factors could cause actual results to differ materially from those in the forward-looking statements. For more information about potential risks and uncertainties, please refer to the company's filings with the SEC.

Also, this call includes discussion of certain non-GAAP measures. Please refer to our earnings release for a reconciliation between non-GAAP and GAAP one. Plus, unless otherwise stated, all figures mentioned are in RMB. I will now hand the call over to our CEO, Mr. Wu Haisheng.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Hello, everyone. I'm very pleased to report another exciting quarter. We closed out the year with another set of record-breaking results and continued the growth momentum since 2020 [Q2] (corrected by company after the call).

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] For Q4, total loan facilitation was RMB 69 billion, up 29% year-over-year. Outstanding loan balance increased by 27% year-over-year to RMB 92.1 billion. Total revenue was RMB 3.34 billion, up 39% year-over-year. Non-GAAP net income was RMB 1.31 billion, up 155% year-over-year.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] for the full year, total loan facilitation was RMB 246.8 billion, exceeding the upper end of our guidance range, which was RMB 242 billion to RMB 244 billion by RMB 2.8 billion. Total revenue was RMB 13.6 billion, up 47% year-over-year. Non-GAAP net income was RMB 3.8 billion, up 38% year-over-year.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] We delivered outstanding results despite a challenging year clouded by the COVID-19 pandemic. This is an important testament to the resilience of our risk management systems and efficiency of our overall operations. We are more confident than ever that we will be able to maintain sustainable and solid growth. Meanwhile, these results speak to the effectiveness of our strategy as we expand to diversify customer bases and acquisition channels. We are expecting accelerating growth in 2021.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] While achieving strong growth in key operational and financial metrics, the quality of earnings and our overall business also improved meaningfully. Capital-light and other tech solutions set new milestones, contributing 34.1% of total loan facilitation in Q4. Recently, the -- this ratio reached over 50, 5-0, percent on a monthly basis. Moreover, the quality improvement of our earnings indicates that we have succeeded in our milestone stage of tech-driven strategic upgrade.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Despite the rising contribution from capital-light, we have been successfully maintaining the overall take rate around 4% by optimizing the contractual terms with our partners and boosting operational efficiency. Going forward, we are more determined than ever to further advance this strategy to build our business on technology-driven models.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] As we entered 2021, on the macro level, we are seeing tailwinds from both the macro economy and industry policies. The macro economy recovery has continued, and we saw a strong demand at operational level. In particular, our business significantly outperformed the normal seasonality during the Chinese New Year holiday as the government stay-put guidelines increased business activities across the board.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] On the regulatory front, we believe that the regulations rolled out recently either has minimal impact on our business or, in some cases, even created favorable environment for top platforms like us. As you may already know, the new ruling from the Supreme People's Court removed the more restrictive lending rate cap for our business. The new guideline on joint-lending and micro-lending has minimal impact on our business, as our exposure to both is quite marginal. On the other hand, China's antitrust and deleveraging push may squeeze some market share away from the industry giants, which will bring us spillover market opportunities.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Next, let me share with you some of our plans for this year.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] With the pandemic well under control and economy expanding, we'll take a more proactive growth strategy this year. In the past, we deployed a large team of senior AI engineers to build our online marketing system, which boosts the efficiency of our interaction with online channels to acquire targeted customers. We have also built up an experienced offline team. Currently, this team contributed roughly 15%, 1-5, of the total transaction of new borrowers compared to 2020 Q3. V-pocket, our virtual credit card product, added over 620,000 new merchants and processed 4 million transactions per month. Our customers use V-pocket in high-frequency consumption merchants such as McDonald's, KFC, Ele.me, Meituan, Taobao, Tmall, Didi, et cetera.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] We noticed that the embedded finance model has enhanced our competitiveness and provided strong growth. We are becoming the partner of the choice of this area for leading consumption traffic platforms in China for several reasons. First, compared with other platforms that only serve a specific customer base within a narrow price range, we have been serving broader-based customers with low, medium and high price options. This has allowed us to build capacity to operate under our wide spectrum of product setting.

Second, the fact that we do not operate a scenario-based consumption platform by ourselves allows us to work with other consumption platforms without potential conflicts of interest.

Third, those traffic platforms typically have strong need for monetization. Our outstanding risk management capabilities can generate superior returns for them. This also makes us an ideal partner. We believe the need for embedded finance service will increase among consumption traffic platform in the future, and we are very optimistic about the growth prospects of this business and our competitive edge. So far, we have cooperated with 18, 1-8, leading platforms, including Du Xiaoman, Didi, Meituan, Xiaomi Finance, 58 Finance, Huanbei and Finvolution with a few more in the pipeline, such as JD, China Telecom and China Unicom. Monthly transaction volume under this model reached RMB 1 billion recently with 150,000 new borrowers with approved credit lines. Both operation metrics showed about 100% growth compared with the numbers in October 2020.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] In addition to consumer finance, SME loans have gradually become a new growth engine for leading internet platforms. This is a blue sea market with estimated RMB 90 trillion, 9-0, market size, and nearly 50%, 5-0, of demand is unmet. Serving the SME market is also consistent with the government's policy of promoting financial services and accessibility to the SMEs. Alibaba-backed MYbank and Tencent-backed WeBank have developed some best practices in this market already and created considerable barriers of entry. Leveraging our deep-rooted partnership with KCB, we've become one of the very few players that are capable of serving this market in a large scale.

In addition to outstanding risk management capability, our robust capacity in funding and customer acquisition allowed us to quickly

establish our competitive edge in this market. For SME lending, we have developed 3 customer acquisition channels, including through SaaS service partners, offline customer reach and online traffic acquisition. So far, we have covered around 20, 2-0, leading SaaS service providers, including Yonyou, Baiwang and Kingdee.

For offline channel, we now have a sales team about 1,000 and plan to expand it to around 2,000 this year. As you can see, we have established a set of diversified customer acquisition channels in SME business. Currently, we are pilot-running these channels and monitoring the loan performance through the process. Once the pilot completes, we will rapidly scale up the business with our well-designed products and readily available funding. So far, a total of 540,000 borrowers received the credit line for SME loans with total accumulated loan facilitation over RMB 27.3 billion. Outstanding SME loan balance increased by about 200% from October 2020 to RMB 7.4 billion.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] In addition, as we mentioned earlier, there might be some spillover market opportunities for us as a result of the ongoing antitrust and deleveraging push by the regulator this year. Currently, our team is exploring some new products catering to our broader customer group. We hope to share more updates with you later this year.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] So this is our growth strategy for 2021. And now into our long-term business model upgrading. Our origin was an Internet company, and our transition into a tech-empowered credit platform, where we take little credit risks, is a natural evolution in our corporate development. Under the capital-light model, we are currently working with 39 institutions and have another 22 in the pipeline. In Q4, loan facilitation using this model accounted for 34% of the total. And recently, this ratio exceeded 50%. We expect this trend of capital-light ratio to continue throughout this year. Meanwhile, we also aim to keep our take rate at around 4% even with the mix change.

Intelligent Credit Engine, ICE, our smart marketing service product for financial institutions, also experienced a rapid growth in terms of number of customers and transaction volume. Our RM SaaS product provides smart risk management service, and we have already signed contracts with 19 institutions, supporting accumulated transaction volume about RMB 16.7 billion. At this service group, our income from nonfinancial service exceeded 50% out of the total.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] With regard to our strategy partnership with KCB, we believe there are significant synergies in key areas of operations. First, through the partnership, KCB may help us expand the reach of the capital-light model. This will not only increase the overall scale of capital-light but also help us attain better contractual terms with other partners. Second, our RM SaaS may provide much-needed risk management capability to KCB in their non-QFIN related business. Currently, KCB is applying our RM SaaS in their working with a couple of major platforms. The success of RM SaaS at KCB will not only drive the growth of our tech-driven volume and income, but also set a good example, attracting other potential RM SaaS clients. Third, KCB provides us a unique competitive edge in SME loans with the access of certain proprietary data.

To sum up, our synergy with KCB will bring significant value in the areas of capital-light models, RM SaaS and SME lending. Since we begin working together, the outstanding loan balance under our partnership has reached RMB 4.25 billion, and accumulated loan volume reached RMB 5.65 billion. We are actively advancing collaboration on other fronts as well.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] 2020 was a highly unusual year. After a year-long extreme stress test, we emerged even stronger than before. Our partners trust us more than ever, and our relationships have expanded. We are now in a stronger market position than ever. Looking ahead to 2021, we will capitalize on the unprecedented market opportunities and then return our shareholders with better business scale and quality.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Next, I'll hand over to our CFO, Alex Xu.

Zuoli Xu 360 DigiTech, Inc. - CFO

Thank you, Haisheng. Good morning, and good evening, everyone. Welcome to our quarterly earnings call. For the interest of time, I will not go over all the financial line items on the call. Please refer to our earnings release for the details.

Strong business momentum continued in Q4 and into the new year as consumer confidence and economic activities remained on a steady upward trend. We have experienced robust consumer demand for credit, along with further improvement in asset quality. Total net revenue for Q4 was RMB 3.34 billion versus RMB 3.7 billion in Q3 and RMB 2.4 billion a year ago. Revenue for credit-driven service, cap-heavy, was RMB 2.56 billion compared to RMB 2.96 billion in Q3. The sequential decline was, in part, due to facilitation volume mix change as cap-light contribution increased significantly and the decline in take rate as we lowered our average interest rate in Q4 to 25.3% from 25.9% in Q3, following the Supreme Court ruling in late August. However, we are expecting interest rates to gradually recover somewhat throughout 2021 as the 4x LPR rate cap is no longer applicable to institutional lending, according to the Supreme Court's latest judicial interpretation.

Revenue from credit-driven service was also negatively impacted by a one-off reassessment of early repayment discount. Revenue from platform service, cap-light, was RMB 782 million compared to RMB 748 million in Q3. If you recall, in Q3, there was a RMB 150 million onetime reversal of previous charges related to certain loans, risk performance versus performance benchmark set by the revenue sharing agreement between us and our partners.

Aside from this reverse of a charge in Q3, for apple-to-apple comparison, the sequential growth of platform service revenue in Q4 was approximately 33%. The growth was mainly due to higher volume under cap-light model as well as better contribution from the ICE model under the -- and the underline take rate for the platform service also improved in Q4. For the full year 2020, platform service revenue grew about 80% as capital-light percentage contribution to total volume nearly doubled.

Total non-GAAP operating expenses, excluding provisions, were up 5.6% Q-on-Q and essentially flat year-over-year. The sequential increase was mainly due to increase in facilitation volume and sales and marketing expenses. Average customer cost -- acquisition cost per user with proven credit line was about RMB 198 in Q4 compared to RMB 172 in Q3. As the macro economy recovered, demand for online traffic increased significantly, and Q4 was a seasonally high demand period for online traffic, particularly around intense online shopping events such as Double Eleven.

For the full year, average customer acquisition cost was about RMB 175. We will continue to use life cycle ROI as a key metric to determine the pace and scope of our customer acquisition process. This approach has enabled us to generate satisfied return and mitigate major potential risks.

Non-GAAP net income was RMB 1.31 billion in Q4 versus RMB 1.29 billion in Q3 and RMB 516 million a year ago. We once again set a new record in quarterly profitability driven by higher facilitation volume and a noticeable improvement in asset quality and the

subsequent write-back of credit risk provisions.

For the full year, non-GAAP net income was RMB 3.8 billion, up 38% from 2019. We are very proud of the achievement, particularly given the challenging market conditions in early 2020. This further demonstrates the resilience of our business model, the effectiveness of our risk management and the consistency of our execution.

Please note, as we transition towards a more technology-driven business model, the structure of our financial model will also gradually change. With increasing contribution from capital-light and other technology solutions, total revenue growth may be not as fast as our facilitation volume growth given the different revenue booking methodology between cap-light and cap-heavy. However, the quality of the revenue will improve and operating margin should gradually expand along the way. As such, overall profitability growth should be more or less keep pace with the facilitation volume growth.

With strong operational results and increased contribution from cap-light model in Q4, our leverage ratio, which is defined as risk-bearing loan balance divided by shareholders' equity, further declined to 6.6% -- 6.6x from 7.4x in Q3 and 9.5x in early 2020. We expect to see continued deleveraging in our business driven by accelerating movement to our cap-light model and solid operating results.

Meanwhile, our provision coverage ratio reached 470% in Q4 compared to 436% in Q3 and 401% in early 2020. This was the highest provision coverage ratio in our corporate history, reflecting significant improvement in asset quality and our prudent approach in estimating provisions.

During the fourth quarter, we continue to generate strong cash flow from operations at approximately RMB 1.4 billion. Also during the quarter, we deployed approximately RMB 1.7 billion cash to fund loan origination under our micro-lending operation and additional pre-ABS assets. As such, total cash and cash equivalents declined slightly to RMB 7.7 billion in Q4 from RMB 7.8 billion in Q3. Non-restricted cash was approximately RMB 4.4 billion in Q4 versus RMB 4.8 billion in Q3.

As you know, a significant portion of our cash was allocated to security deposit with our institutional partners and the registered capital of different entities to support our daily operations. While we continue to generate strong cash flow through operations, we will also proactively deploy cash to expand our business, invest in key technologies and satisfy potential regulatory requirements. We believe that sufficient cash position will not only enable us to compete in the ever-changing market, but also position us to capture potential growth opportunity in the market recovery.

Finally, let me give you some color about our outlook for 2021. While we intend to keep our tradition of prudent decision-making and business planning, we are encouraged by continued strong business momentum so far in 2021 as macroeconomic -- economy continues on a steady growth path along with some regulatory clarity emerges. As such, we now expect total loan facilitation volume for 2021 to be between RMB 310 billion and RMB 330 billion, representing year-on-year growth of 26% to 34%. As always, this forecast reflects the company's current and preliminary view, which is subject to change.

With that, I would like to conclude our prepared remarks. Operator, we can now take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First, we have Jacky from China Renaissance.

Jacky Zuo China Renaissance Securities (Hong Kong) Limited, Research Division - Analyst

(foreign language) So let me translate my questions. So congrats on the strong results. I have 3 questions to ask. Number one is about our loan guidance. So we gave a very strong full year guidance. Just want to try to understand the rationale behind the guidance. Do we expect a larger budget for sales and marketing? How much contribution were from the MSE lending? And what is the run rate for the first quarter so far?

Second question is about the customer acquisition channels. I try to understand in terms of the channels, how much will be from the corporation with leading Internet platforms as well as the offline sales and also the traditional online traffic channels?

And third question is about our take rates. I'm [sure] that the capital-heavy model, our take rate was a bit lower in the fourth quarter. So I saw -- probably the impact is from a lower APR and also early repayment impact. I just want to understand the rationale about the lower take rate. And what's the outlook for this year, 2021?

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Thank you, Jacky, for your question. Great question. I will handle the first 2, and our CFO, Alex Xu, to answer your third question.

For the first question as the fundamental logic for our loan guidance, we are building this guidance considering in the past few years, we have successfully achieved decent growth and considering the macro environment and the industry policy tailwinds for the whole industry development. That's how we developed this 24% to 36% year loan origination guidance.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Well, for -- first point, for the existing customer acquisition channel, which is online traffic channels, this year, we will increase largely in terms of scale while maintaining stable customer acquisition cost. If you benchmark across the whole market, as some of our peers disclosed the CPS cost, we have very strong competitive edge on this realm.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Second point, as we mentioned in my remarks that we will spend more efforts on embedded finance customer acquisition channel this year. Thanks to our input last year, we will embrace rapid growth in -- on this channel in this year. We expect the customer -- new customer -- well, new customers from this channel will contribute 30%, 3-0, this year.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] The third driver for our growth strategy this year is SME loans. There are 2 parts of the growth. The -- number one is transition from existing high-quality individual consumers from our existing customer base. Second part is the newly acquired SME entrepreneurs. In total, these 2 parts adding up will contribute around 10% of total loan book this year.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] The fourth growth driver comes from the RM SaaS service products. As we mentioned in the remarks, we are expanding the cooperation with KCB and ramping up this kind of smart risk management service to more and more financial institutions.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] As for the -- our diversified customer acquisition channels, number one is online traffic customer acquisition. Number two is the embedded fintech -- embedded finance customer acquisition. We expect this to contribute 30% this year. Number three is the offline team. Currently, this offline team contributes 15%, 1-5, of new customer acquisitions. Besides that, the SME consumption scenario will be an additional channel.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Our CFO, Alex Xu, will address your third question.

Zuoli Xu 360 DigiTech, Inc. - CFO

Okay. Thank you, Haisheng. I just want to add one small color to the earlier questions regarding the customer acquisition costs. Some of our peers disclose the CPS cost, and we look at it at the same logic and the same methodology to calculate it. We are running roughly 40% below that number. So that's just a small color on that customer acquisition cost.

In terms of take rate for Q4, yes, the Q4 take rate, particularly on the tech heavy side, was impacted by basically 3 -- or maybe 2 major items. One is really the interest rate cap causing the lower rate, as I mentioned in the prepared remarks. We lowered to 25.3% versus 25.9% in Q3. So that's hurt the take rate on the cap-heavy side. The other one is more like a one-off item. If you recall, around November of 2019, the regulator put out a ruling or requirement basically allowing customers to make early repayment without any meaningful penalty in there.

So we start to change our practice, along with other companies in the industry to adopt that. But at the time when we get into the -- like Q1 and Q2 of this -- of 2020, we don't know exactly how many or how much of the impact this early repayment will be. So from a financial kind of planning or accounting perspective, we have to put out a best estimate in there. Back then, the estimate was about -- the early repayment discount ratio we put was about 12%. And we need to wait for the full long cycle finish for this batch of particular customers to fully understand what the real impact of the discount will be.

Once we get into the fourth quarter, keep in mind, our average long-term is somewhere around 9 months. So once we get to fourth quarter, we saw the whole performance of the entire batch of customers. And back then, we realized the actual early repayment ratio or discount ratio was higher than the -- our estimate in the previous quarters. So from accounting perspective, we need to basically kind of take -- almost like take a charge to reflect the actual repayment discount ratio. This charge amount in Q4 account for roughly RMB 170 million to RMB 180 million. So that, I would say, is a one-off hit to the top line there.

And then the third overall impact to the top line is really the mix change, meaning like the increased contribution from cap-light and the decreased contribution from cap-heavy. We do a back of the envelope kind of calculation. For every \$10 we facilitate under cap-heavy model, we roughly can make about \$3 in the bottom line. But if we want to make the same \$3 in the bottom line, we only need \$6 in cap-light facilitation. So if you do the quick calculation, if you can get, let's say, 30% earnings growth for 2021, we only need 10% revenue growth to reach that. It's just because the mix change will continue throughout this year and actually pretty fast.

So that's why in my prepared remarks, I asked all the analysts as well as the investors to change your financial model to gradually move toward a kind of more cap-light-driven model with relatively slower revenue growth versus the loan volume growth, but improving margin that drives the comparable earnings growth versus the volume growth.

Operator

Next, we have Xu from Morgan Stanley.

Ran Xu Morgan Stanley, Research Division - MD

(foreign language) Basically, 2 questions. Basically, with the clear clarity on the interest rate environment. I just want to know whether the interest rates -- how much the interest rates will rebound? What will be the proper level for the interest rates, given there's still some window guidance and stuff like that?

Secondly, on loan volume growth, what will be the long-term thinking? There is also some, I guess, regulatory focus on the pace of consumer credit growth. What will be the, I guess, more sustainable proper pace for the longer term?

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Thank you, Richard, for your question. I will answer your first question. Yes, after new ruling from Supreme Court at the end of last year 2020, we did see some -- a little bit rebound of the interest rate on our product level. However, as you mentioned, considering the whole regulatory environment and as a company with social -- society responsibility, we will intend to carry out the long-term downward trending price.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Yes. We -- it can be shown in our several new business initiatives. For example, we are exploring products covering more -- better quality prime clients as well as we are tapping into the SME loan business. Both new products have a lower interest rate compared to the existing products we are operating.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Yes, we will take a comprehensive consideration when operating our business. The price is just one front. Actually, we take more focus on the lifetime value of our customers.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Yes, considering the diversification of geography range and different attitude of local regulators across China, we -- as a loan facilitation platform, our purpose is to facilitate the demand and need between the borrowers and the financial institutions. There are some financial institutions, they have the demand for higher pricing range. That's why we cover more broader price range products.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Well, as for your second question, compared to the industry giants, who have already RMB 1 trillion loan balance, we are still at a very -- at a comparatively early development stage compared to them. Therefore, in view of regulators, we are not the target. They will regulate in terms of the antitrust purpose.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] As we mentioned in the remarks, SME loan is a very important business driver for us this year. This is very consistent with the government promoting policy to provide the acceptability and the financial service to SME.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Thank you.

Operator

Next on the line, we have Steven Chan from Haitong.

Steven Chan Haitong International Research Limited - Executive Director

(foreign language) My questions focus on 2 things. One is about -- that could be potential big increase in cash position, especially now we're moving towards capital-light. I believe that probably the demand for restricted cash likely to reduce. And if that's the case, with increasing balance of cash position, what will be our plan in the coming years? Will we consider to pay out some of the cash as dividends like what -- like our peers did? That's the first question. And second question is, what is your current plan of returning back to Hong Kong for listing?

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] I'll answer your first question. In terms of the use of that cash, number one, very important aspect, as we are still growing our business aggressively, we'll invest in the new business areas. For example, the product development and new customer acquisition.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Well, in the long term, we expect there will be a balanced mix for these fintech players. There will -- the mix will be majority loan book comes from the capital light model. There will be a portion of the transitional loan facilitation model. And as well, there will be a portion for the on-balance sheet loans -- finance -- self-finance.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] There are a few reasons to increase their on-balance sheet business. Number one, it returned with very high ROE, about 40%.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] The third important use of cash is some major equity investments. For example, one of our affiliates, an insurance company with rapid growth and promising prospects. Secondly, we are actively looking at some target -- investment targets with great potential synergies.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] The third aspect of cash use is regarding the license. There might be capital injection into our micro-lending license or guarantor license as well as we may consider to purchase more license.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Zuoli Xu 360 DigiTech, Inc. - CFO

Sure. Basically, Haisheng has sort of covered the cash usage throughout this year, supporting our business growth, get proper license, get sufficient registered capital under certain license and also some potential M&A, although mostly looks like a relatively smaller size. And with all these considered, of course, we're also looking at the operations because we're expecting operations to continue to generate very strong cash flow throughout this year. And at some point -- at some time, when we look at the cash position, when we satisfy all these needs, if there's still kind of "free cash" available to us, we're not ruling out any other sort of return to shareholders kind of activity down the road. But right now, the priority like we always said, is focused on expand our operations, get ourselves ready for this market.

And then in terms of the Hong Kong listing, we are still in the process of dealing with some technical kind of problem solving. As you know, the requirements by Hong Kong Exchange on VIE structure, loading power and everything is highly different than the U.S. So we need to make some changes -- in some cases, some small restructurings under these new requirements. We are doing it as we're speaking. And those processes take time because some of them need government to kind of sign off on that. Once we finish these technical issues, we will be more kind of sort of push -- the official push for the listing. Right now, it's still in the, what they call, pre-A1 stage there.

I think we're almost running out of time. We can take 1 more question.

Operator

We will be taking our last question from Ethan from CLSA.

Yushen Wang CLSA Limited, Research Division - Research Analyst

(foreign language) So my question is on the 90-day delinquency ratio. It will be helpful if management can help us break that down into capital-heavy and cap-light model so we can observe the trend there.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] I will hand this question to our CRO, Zheng Yan. Zheng Yan, please.

Yan Zheng 360 DigiTech, Inc. - Chief Risk Officer

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Our last quarter day-1 delinquency rate (inaudible).

Zuoli Xu 360 DigiTech, Inc. - CFO

Sorry, this is Alex. We heard a little bit breakdown of the voice. I'll just do the translation again for the audience. So basically, our day-1 delinquency at this point stands at about 4.8%, which is obviously the best level in our corporate history. And then the 30-day kind of a collection rate in the fourth quarter, we were above 90%. Right now, we'll continue to improve slightly from that level.

The difference between cap-light and cap-heavy, by definition, the cap-light, we try to kind of offload relatively lower kind of quality assets out. So the cap-light delinquencies was slightly worse than the cap-heavy, but not a huge difference there, basically.

Haisheng Wu 360 DigiTech, Inc. - President, CEO & Director

(foreign language)

Mandy Dong 360 DigiTech, Inc. - IR Director

[Interpreted] Well, I just want to add some color to our asset quality. Yes, the market and investors will look at the risk management metrics, for example, the day-1 delinquency or the M1 delinquency rate. However, I want to point out that maybe you better look at the whole picture of business together with the asset quality operating metrics, considering how much customer we acquired from customer acquisition channel, then how much -- how many customers got approved the credit line, then plus considering the asset quality metrics.

In short, we acquired more customers, and we have a higher approval rate, and then we still maintain very stable superior risk management performance. Compared to some of our other peers, because they acquired less customers and they have lower approval rate, that in logic and naturally, they have better risk management performance.

Zuoli Xu 360 DigiTech, Inc. - CFO

Okay. Thank you for everyone joining us for the conference call. If you have additional questions, please feel free to contact us through our IR team and thank you. Have a good day.

Operator

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

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