

Fanhua Q2 2020 Earnings Conference Call Transcript

Operator:

Thank you for standing by for Fanhua's First Quarter 2020 earnings conference call. At this time, all participants are in listen-only mode. All lines have been placed on mute to prevent background noise. After the management's prepared remarks, there will be a question-and-answer session. Please follow the instructions given at that time if you would like to ask a question. For your information, this conference call is now being broadcasted live over the internet. Webcast replay will be available within three hours after the conference is finished. Please visit Fanhua's IR website at ir.fanhuaholdings.com under the "Events & Webcasts" section.

Today's conference is being recorded. If you have any objections you may disconnect at this time. I would now like to turn the meeting over to your host for today's conference, Ms. Oasis Qiu, Fanhua's investor relations officer.

Oasis Qiu: Good Morning. Welcome to our First Quarter 2020 earnings conference call. The earnings results were released earlier today, and are available on our IR website, as well as on newswire.

Before we continue, please note that the discussion today will contain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause our actual results to differ materially from those projected or anticipated. Such risks and uncertainties include but are not limited to those outlined in our filings with the Securities and Exchange Commission, including our registration statement on Form 20-F. We do not undertake any obligation to update this forward-looking information, except as required under applicable law.

Joining us today are our chief executive officer, Mr. Chunlin Wang, chief financial officer and Mr. Peng Ge. Mr. Wang will provide a review of our financial and operational highlights in the First Quarter 2020. There will be an Q&A session after the prepared remarks. Now I will turn the call over to Mr. Wang.

Chunlin Wang (Interpreted): Thank you for joining us on today's conference call. Here with me, we have our Chief Financial Officer, Mr. Peng Ge; and the Secretary of our Board, Lily Lee, and we will begin today's call with an overview of our first quarter 2020 financial and operational results, followed by an outlook. Mr. Ge and I will take your questions after the report.

Despite the continued challenges placed by the COVID-19 on China's macro economy and the insurance industry, Fanhua still delivered results exceeding our prior estimates in the second quarter of 2020.

Since the second quarter of 2020, with effective epidemic prevention and control in China, the resumption of domestic economic activities has gradually brought life insurance industry back on track for gradual recovery. In the second quarter of 2020, premiums of China's life insurance industry grew by 30.4% year-on-year, while Fanhua's life insurance premiums increased by 19.2% year-on-year, outpacing the industry growth.

Facing the challenges posed by the pandemic, Fanhua has taken active measures to maintain the unity and stability of our staff and sales team to achieve steady business progress, delivering results exceeding expectations across various major metrics. Double growth in operating income and net income.

In the second quarter of 2020, despite the impact of the pandemic, Fanhua has maintained a sustained and stable profitability, growing operating profit 25.3% year-on-year to CNY 96.9 million, which significantly exceeded our previous guidance. Net income attributable to shareholders exceeded RMB 99.3 million, up 1.3% year-on-year. Earnings per ADS increased 3.9% year-on-year to RMB 1.85.

Life insurance business recovered steadily with excellent business quality. In the second quarter of 2020, with gradual resumption of off-line business activities, Fanhua's life insurance business has picked up steadily month-on-month, of which life insurance new business in terms of APE, annualized premiums equivalent, has amounted to CNY 180 million in June, returning to the normal level before the epidemic. In the second quarter of 2020 GWP, gross written premiums, of regular life insurance business reached CNY 2.3 billion, of which the FYP, first year regular premiums, exceeded CNY 611.9 million and renewal insurance premiums increased 37.9% to CNY 1.7 billion. APE in the second quarter of 2020 totaled CNY 385 million, up 25.3% from the first quarter.

In the second quarter of 2020, Fanhua's sales force remained stable. The number of performing sales agents grew 7.2% quarter-to-quarter to 35,000. We are also glad to see positive growth in per agent FYP among performing agents, per policy premiums and active ratio among new recruits. In the second quarter of 2020, Fanhua has maintained excellent business quality with its 13-month persistency ratio reaching 92% and 25-month renewal rate exceeding 87%.

In the second quarter of 2020, our whole life insurance business continued its growth momentum in last quarter, becoming a new growth point for the company. Our whole life insurance business increased 669.1% year-on-year, taking up 19.4% of our life insurance business in terms of APE in the second quarter of 2020 compared to only 2.1% in the same period of 2019. On the other hand, the proportion of our critical illness insurance business decreased slightly to 68.8% from 73.7% in the second quarter of 2019 and our annuity insurance business decreased from 20.9% to 9.1% as a percentage of our total life insurance business.

In the second quarter of 2020, we have continued to have close cooperation with our product suppliers and devoted ourselves to providing customers with mass competitive and diversified products. Compared to the same period last year, we have added 5 new suppliers for long-term insurance products. Currently, Fanhua has established headquarter-to-headquarter partnership with 35 insurance companies for the distribution of long-term insurance products.

In the second quarter of 2020, our top 5 life insurance partners were Sinatay Life Insurance, Huaxia Life Insurance, Evergrande Life Insurance, Aeon Life Insurance and Tian'An Life Insurance, which accounted for 30.8%, 16.7%, 16.6%, 40.3% and 6.7%, respectively, of our Life Insurance segment in terms of APE. Up to now, the contract terms and our cooperation with these major product suppliers has remained stable.

Great progress in claims adjusting business: Since Fanhua began to tap into the medical insurance-related claim adjusting business in its Claims Adjusting segment in 2019, we have achieved breakthrough growth, which contributed to the rapid increase of our claim adjusting revenue. In the second quarter of 2020, revenues generated from the claim adjusting business increased 36.1% year-on-year to RMB 115.8 million, taking up 28.6% of the total claim adjusting business revenue.

Technology platforms empowered the sales team in value creation. Since the outbreak of the COVID-19, Fanhua has been making full use of technology platforms such as Lan Zhanggui plus Baowang to support activities, including online agent training, marketing and agent recruitment, and the business operation at integrating off-line with online has become a new normal.

In the second quarter of 2020, in order to better support agents and improve our customer services, Fanhua has increased its investment in technology platforms in terms of building a digital marketing system, developing the first intelligent audio and video recording system in insurance intermediary industry and building a digital customer service platform and a channel sales system structure. Meanwhile, based on the big data analysis, Fanhua is also working on data mining and stratification to help our agents to further cultivate our customer resources and improve their productivity.

Business guidelines: Despite the headwinds from COVID-19 on China's macro economy and the insurance market, Fanhua still delivered solid results that beats our prior activate in the second quarter of 2020, fully demonstrating the sustainability and resilience of our business model. As the pandemic gets further contained in China, we have full confidence in achieving year-on-year and quarter-on-quarter positive growth in GWP, total net revenues, APE and non-GAAP operating income, excluding share-based compensation expenses in the third quarter of 2020.

We firmly believe that after coming out from the COVID-19, supported with upgraded strategy and empowered by our digital capability and elite sales force, Fanhua will be able to embrace for a higher-quality and rapid development.

Dividend for the second quarter of 2020 is USD 0.25 per ADS, payable on or around September 8, 2020 to shareholders of record on September 22, 2020. Fanhua remains committed to returning cash in terms of quarterly dividends to shareholders.

This concludes our -- my presentation. Now the floor will open for your questions.

Q&A Session:

Operator (Operator Instructions) We have our first question from the line of Xue Yuan of CICC.

Yuan Xue: (foreign language)

[Interpreted] This is Xue Yuan from CICC, and I have 2 questions. And the first one, regarding to the breakdown of our new business and renewal business as a percentage of our total gross profit. And the second question, how would our business look like in July and August? What's the growth?

Chunlin Wang: [Interpreted] So basically, the contribution from new business and renewal business to our gross profit is about 50-50. And to be specific, the gross profit derived from new business accounts for about 49.7% of our total gross profit, while that from renewal business taking about 50.3%. And up to now, our APE in July and August both have recorded positive growth. And we believe that we will deliver positive growth in the third quarter.

Operator: (Operator Instructions) Our next question comes from the line of Michael Chu of Franklin Templeton.

Michael Chu: (foreign language)

[Interpreted] 2 questions from Michael. The first one is, why our renewal premiums dropped sequentially? And the second question is with regard to the strong sales of our whole life insurance business in the second quarter for Fanhua. Is there any particular reason for that? And as far as he sees, it seems that whole life insurance product didn't sell very well in the second quarter in the insurance industry. So is that because our product suppliers has provided a very good product in terms of design in the second quarter?

Chunlin Wang: [Interpreted] Our renewal premium grew about 36.7% in the second quarter this year. And the reason for the sequential decline was because usually, life insurance business was the highest in the first quarter due to seasonality. So that may

result in the sequential decline. And the base in the second quarter last year was higher compared with the first quarter last year.

As you may know that there has been some restrictions on the designs annuity products since last year. And right now, we actually are seeing a very good window opportunities for us to develop whole life insurance products. Our insurance company partners also see there's good opportunities. Therefore, we have been stepping up cooperation in this regard, expanding sales -- or expanding our efforts to innovate products for whole life insurance products. So that's one of the major reasons that drove this strong sales of whole life in the second quarter.

In terms of the ticket size, the per policy premiums for whole life and annuity are more or less similar. And in the second quarter, for the whole life, the per policy premium is slightly higher than annuity.

Michael Chu: (foreign language)

[Interpreted] How does Fanhua's whole life insurance product differentiate against our competitors, and who is the major supplier for our whole life insurance products? And then secondly, in light of restriction by the U.S. regulator and the U.S. government on Chinese ADR companies, how is the company going to do about that? And has the U.S. regulator provided any kind of guidelines to Fanhua?

Chunlin Wang: [Interpreted] Our major product suppliers for whole life insurance products are Sinatay and Aeon Life Insurance. Product-wise, there may not be a huge difference compared to most of the popular whole life products in the market. But one of the major difference is that our product suppliers have offered more aggressive sales incentives in the second quarter to boost the sales.

Since our IPO in 2007, Fanhua has been preparing and compiling our financial statements in accordance with the U.S. GAAP and we have strictly followed the rules and regulations by the SEC and the stock exchanges to conduct information disclosure in a transparent, open and complete manner. We will try all means to keep compliance with all the rules and regulations that's helpful to increase the transparency and helpful for protecting investors' interest.

As for the proposal by the working group, there's still uncertainty with the implementation. But we'll certainly keep a close watch on that. As for whether or not Fanhua will consider relisting in Hong Kong or in Mainland China, if there's a good opportunity, we will not rule out that possibility. However, I don't think we will spend a lot of energies on that. We still believe that a good quality company, especially one with sustainable dividend policy will be applauded and appreciated by investors wherever it is listed.

