S&P Global
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OneConnect Financial Technology Co., Ltd.

NYSE: OCFT SEHK:6638

Earnings Call

Tuesday, May 21, 2024 1:00 PM GMT

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Call Participants

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Presentation

Operator
Ladies and gentlemen, thank you for standing by, and welcome to OneConnect's First Quarter 2024 Earnings Call. Please note, this event is being recorded.

Now I would like to hand the conference over to your speaker host today, Mr. Rick Chan, the company's Head of Investor Relations. Please go ahead, Mr. Chan.

Rick Chan
Head of Investor Relations

Thank you, operator. Hello, everyone, and welcome to our 2024 first quarter earnings conference call. Our financial and operating results are released earlier today and currently available on our IR website.

Today, you will hear from our Chairman and CEO, Mr. Shen Chongfeng, who will give opening remarks and business highlights. Afterwards, our CFO, Mr. Luo Yongtao will cover a closer look into our financials. And then in question-and-answer session, our management team will be available to you. We will have our CTO, Mr. Li Jie; Head of Corporate Planning and Product Management, Ms. Jessie Shen.

In today's conference, our management team will make statements in Mandarin or in English. For those in Mandarin, a consecutive translation will be provided in case of any discrepancy between the Mandarin version and the English version, our statement in the original language should prevail.

Let me quickly cover the safe harbor statement before we start. As we are making forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially. Please note that we may present both IFRS and non-IFRS financial measures.

With that, I'm now pleased to turn our call to Mr. Chairman and CEO, Mr. Shen Chongfeng, please.

Chongfeng Shen
Chairman of the Board & CEO

[Interpreted] Hello, everyone. I'm Shen Chongfeng. Thank you for taking your time to dial-in OneConnect's 2024 Q1 earnings call. On behalf of OneConnect, I would like to extend a warm welcome to all investors, analysts and friends from media who are with us today. It's a great pleasure to take this opportunity to share with you what we have achieved in the first quarter of 2024.

The Central Economic Work Conference put forward 9 key tasks for this year's economic development. The construction of the modernized industrial system led by technical innovation, which is a top priority among the 9 tasks also points out the direction for the development of the financial industry. Under these requirements, development of the industry this year will center around expediting application of technology and measures that achieve both quality and efficient monetary policy, so as to promote the deep integration of finance and technology as well as quality economic development.

The recent Science and Technology Work Conference held by the People's Bank of China also put forward tasks such as accelerating the planning and construction of digital central banks, continuously enhancing network security and data security capabilities as well as deepening the application of financial technology and digital transformation.

With digitalization becoming ever more relevant, financial institutions as well as large SOEs are facing many challenges. OneConnect closely monitors policy and market development and continues to leverage the unique advantages of technology + business to improve its product capabilities in 3 major segments, namely digital banking, digital insurance and Gamma platform, so as to empower the development of new quality productive forces in the financial industry.

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The spring of the year of loong witnessed further improvements in our profitability. Net loss from continuing operations attributable to shareholders improved to CNY 54 million from CNY 72 million in the same period last year, narrowing by 25.9% year-on-year. Gross profit margin increased by 0.3 percentage points year-on-year. In the first quarter, we actively adjusted our product portfolio, deepened customer engagement and continued to expand domestic and overseas markets. Additionally, we also continued to improve operational efficiency, which laid a solid foundation for us to achieve profitability in the medium term.

Next, please go to Page 4. Committed to our business philosophy of value, win-win cooperation and quality development, we achieved significant progress in 3 core priorities, namely product upgrade, customer expansion and overseas expansion in Q1. At this stage, we are accelerating export of Ping An Group technology and upgrade of self-developed products and aggregating resources on high-value products. At the same time, the company has boosted the productivity of its sales team, expanded pipeline and increased third-party revenue growth, so as to further improve revenue structure. On top of that, OneConnect has also ramped up efforts in overseas market, meeting international market demands by continuously improve our product based on the demands and preferences of local markets.

Next page. 2024 remains a key year in our Stage 2 strategy of broadening customer engagement, where we focus on financial institution customers while deepening "Unite the Core, Empower the Wings" strategy. We will continue to focus on our financial institution customers, integrate and optimize our products and services to continuously improve our product capability around the 3 major business segments: digital banking, digital insurance and Gamma platform, so as to empower financial institutions to improve quality and efficiency and successfully achieve digital transformation and upgrading. We will closely monitor market developments and strengthen cooperation with financial regulators and enterprise or industry partners around the world. In addition to the Mainland market, we will also focus on regions, including Hong Kong, China -- including Hong Kong, China, Southeast Asia, South Africa and the Middle East. As the financial markets in these regions continue to grow and the demand for digitalization is increasingly prominent, we will actively seek opportunities to collaborate and expand our footprint.

Next page. This quarter, we landed a series of new benchmark cases. Our unique competence in technology + business has earned a sustained trust of our customers from both home and abroad, leading to renewed partnership and deepened collaboration through new projects or contract renewals. For instance, expanded engagements with customers such as China Everbright Bank, Bank of Hunan and SB Finance demonstrate customer recognition for our products and services. Additionally, customer stickiness has been further enhanced through cross-selling of multiple products.

Next page. Aligned with market trends, our Digital Banking segment continuously enhanced product intelligence and convenience for use.

In terms of AI intelligence, our [JinJieYing] AI housing mortgage solution helps financial institutions create innovative housing mortgage loan products, realize diversified customer acquisition, automatic approval, intelligent risk management and intelligent operation, so as to provide customers with a more convenient, efficient and safer financial service experience. As for business streamlining, our 3 E-Series products, including [E-Banker App, E-Sales Management and E-Wealth Advance Map] help customers increase their AUM by over 20%, improved business opportunity reach rate by 2x to 3x and enhanced private banking customer growth by 38% through the empowerment of team management, business opportunity management and wealth management.

With regard to active compliance, we aim to help customers improve their compliance level and risk management level and therefore, have developed comprehensive solutions such as one table solution with customer risk 1104 and EAST standard items totaling 2,157, covering over 10 thematic areas and over 90 report form submission and realizing real-time data docking and processing, which greatly improves efficiency and accuracy.

Next page. In digital insurance, we have provided a state-owned P&C insurance company with an end-to-end P&C insurance system to solve the pain points of claims, underwriting and servicing help customers

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strengthen claims risk, enhance underwriting quality and improve customer experience. The project also marks another benchmark case of our end-to-end system cooperation in property and casualty insurance. In the future, the company will continue to enhance customer stickiness through multiproduct cooperation and expand more customers by continuously upgrading high-quality products and services.

Next page. While serving financial institutions in Mainland China, the company also exported successful experience abroad, actively expanded its overseas presence and remains committed to empowering a broader market with China's financial technology.

Revenue contribution of overseas customers increased by approximately 14.8% year-on-year in this quarter. And the proportion of overseas customer revenue to third-party revenue was up by 5 percentage points to 20%. Business growth in Hong Kong, China, Southeast Asia, South Africa and the Middle East experienced strong momentum as we actively explore overseas markets and continue to expand sales network and introduce products well received by our overseas customers. For example, in Q1, OneConnect signed an SLP product upgrade contract with SB Finance, achieving another success story in the development of the Southeast Asian market. The company will continue to expand our overseas customers, expand our cooperation with Hong Kong, China customers and strive to deepen and replicate our cooperation with South Africa's Old Mutual.

Next page. This quarter, OneConnect also released its 2023 ESG report. In our ESG practices, we have always regarded financial technology empowerment and building a sustainable industry ecosystem as an important strategy of the company. The company partnered with government agencies to create benchmarks for new infrastructure, providing solid financial technology support for the construction of the FINI platform. This not only helps to modernize social infrastructure, but also provides more convenient and efficient financial services for the general public.

OneConnect has launched a comprehensive carbon emission data management platform to help enterprises realize real-time monitoring and management of carbon emission data. The company has also actively participated in the drafting of a number of national industry -- of national and industry technical standards to promote the standardization and development of the financial technology industry. In addition, we actively respond to the Belt and Road Initiative and worked with ADGM to help Abu Dhabi build a digital financial ecosystem, which has more than 495 registered users.

Next page. In the first quarter, we have also won a number of honors from third-party institutions and renowned media outlets, which testifies industry and social recognition for our products as well as our technology capabilities and industry influences. These awards include KPMG China Leading Fintech 50 and Emerging 50, The Economic Observers Annual Leading Financial Services Platform, [01 Caijing] Annual Fintech Top 50 and Annual Financial IT Innovation Top 30.

Since the beginning of 2024, we have seen a new round of scientific and technological revolution and industrial transformation continue to deepen. New quality productive forces with artificial intelligence at the core is accelerating to lead the high-quality development of industries. We firmly believe that the financial industry has the best use case for Artificial Intelligence Plus and will be a strategic focus for new quality productive forces. OneConnect as an active participant of this revolution, will continue to empower the upgrade and transformation of the financial industry with technological innovation.

We aim to focus on serving premium plus customers and product improvement, so as to satisfy the core demand of financial institutions for various business productivity improvements. We also aim to develop new product -- we also aim to develop products featuring new quality productive forces such as AI, voice assistant and omnichannel agent solution, so as to improve efficiency and services, reduce costs and risks for financial institutions. We believe that with sustained commitments and innovation, OneConnect will make its own contribution to the development and prosperity of the financial industry. Thank you.

Next, I'll give the floor to Mr. Luo to introduce -- to give you a more detailed introduction of OneConnect's financials in this quarter.

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Yongtao Luo
Chief Financial Officer

Okay. Thank you. Good evening, everyone. As previously reported, we completed the disposal of our Virtual Banking Business to Lufax for a consideration of HKD 933 million in cash on April 2, 2024. As a result of the disposal, the historical financial results of the Virtual Banking Business segment have been reflected as the discontinued operations in the first quarter of 2024 and the comparative period in 2023. On the other hand, the historical financial results of the remaining business have been reflected as continuing operations. The financial information we will soon cover is presented on a continuing operations basis, unless otherwise especially stated.

Despite an uncertain macro environment, we recorded a satisfactory first quarter results. We delivered revenue from continuing operations of RMB 723 million in the first quarter of 2024 decreased by 19.1% compared to the same period last year. Revenue generated from third-party customers decreased by 14.8% to RMB 243 million in the first quarter. Revenue decline reflects our decision to adopt quality growth strategy and reduce customized projects of low margin.

We are encouraged to see the IFRS basis gross margin for the quarter improved by 0.3 percentage points year-over-year to 37.7% because of this strategy and non-IFRS gross margin was relatively stable at 40%. Net loss attributable to shareholders was RMB 54 million and the corresponding net margin narrowed by 0.7 percentage points year-over-year to negative 7.4%.

Now let's turn to our revenue mix. In the first quarter, our revenue mix by customer type maintained relatively stable. Our third-party revenue contributed 33.6% total revenue in Q1 2024. The uncertain macro environment and the strategic adjustment of our revenue structure did have an impact on our revenue, which reflected in a decreased revenue from business origination services and implementation services in the first quarter.

Third-party revenue growth remains a key focus of our second stage strategy. Once macro pressures subside and as we continue to advance our initiatives, we believe revenue from third-party will improve. We are also glad to see that our overseas business continued strong momentum in the first quarter, making up the shortfalls of the temporary reduced demand for certain products and services.

In the first quarter, revenue from Lufax decreased 18.4% to RMB 58 million and contributed 8.1% of our total revenue. The revenue decline from Lufax was mainly due to Lufax business operation optimizations resulting in lower demand for our business origination services, risk management and other technology services.

Revenue from Ping An Group decreased 21.4% to RMB 422 million and contributed 58.3% of our total revenue. As always, OneConnect regards Ping An Group as our most important flagship customer. Our services to Ping An Group also have a proven record of success. For example, in the area of AI technology services, Ping An Group has enabled AI agents through our AI technology to optimize and transform business processes to improve operational efficiency and the customer experience. Our products and services provided to Ping An Group are robust and comprehensive.

Moving on to revenue mix by business type. The implementation revenue decreased by 25% on a year-over-year basis to RMB 157 million, mainly due to a reduced demand for banking system products and the Gamma data middle platform in the first quarter. Revenue from business origination services decreased by 73.8% on a year-over-year basis to RMB 13 million, primarily due to declined transaction volumes in marketing management platform under digital retail banking solutions and in loan origination systems under digital credit management solutions.

Revenue from risk management services decreased by 15.8% on a year-over-year basis to RMB 65 million, mainly due to reduced transaction volume from banking loan technology products because of lower-than-expected recovery of banking loan activities in the first quarter. Revenue from operation support services decreased by 39.8% on a year-over-year basis to RMB 134 million, which was primarily caused by the

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change of business model in auto ecosystem services that we migrate from acting as a contractor to a distributor. Revenue from cloud services platform was RMB 318 million, increased by 8.9% on a year-over-year basis compared with RMB 292 million in the first quarter last year, mainly due to increased transaction volume.

Revenue from post-implementation support and other services decreased by 17% to RMB 35 million. As you can see, our business are diverse, and we are developing more products around the core technology for business solutions. We remain committed to diversifying our product mix and adopting a stable and sustainable stock-based charging model.

Let's turn to revenue mix by product segments. Gamma Platform segment accounting for 59.4% of our total revenue decreased by 6.2% in first quarter 2024 due to lower demand of implementation services. Digital Banking segment, which accounted for 22.3% of total revenue, reduced by 37.6% on a year-over-year basis. That was mainly caused by reduction in transaction volume of business origination services and risk management services. This revenue decline reflects our continued efforts to phase out lower-value products.

Digital Insurance segment, which accounted for 18.2% of total revenue, decreased by 25.3% on a year-over-year basis, primarily due to the change of business model in auto insurance, auto ecosystem, as I just described before.

Let's now take a look at the customer numbers. Premium Plus customers decreased to 59 as compared with 73 for the same period last year. We believe as we continue to advance our initiatives, we expect that more Premium Plus customers using our products and services.

Next page, gross margins. We are very glad to see our gross profit reached RMB 272 million in the first quarter 2024. IFRS gross margin improved 0.3 percentage points to 37.7%. On a non-IFRS basis, gross margin was 40%, remains about the same as Q1 last year. In the first quarter of 2024, the continued efforts in product integration and delivery efficiency, together with execution on quality growth helped improve our gross margin. We will stick to this strategy and continue the endeavor of achieving profitability target.

Moving on to our expenses and net loss. You can see that we are well on track to our breakeven midterm target. First of all, our research and development expense came down to RMB 213 million from RMB 276 million. As a percentage of revenue, it decreased to 29.5%, compared with 30.9% in the prior year. In the first quarter, we continued implementing our Stage 2 strategy that focuses on product integration. As our products upgraded and integrated, we further improved our product delivery efficiency. Looking ahead, we will keep investing in research and development at a measured and reasonable pace to enhance our competitiveness in the market.

Our sales and marketing expense for Q1 decreased by 18.1% to RMB 49 million compared to RMB 59 million in the prior year. As a percentage of revenue, sales and marketing expense remains flat at 6.7%. The expense reduction mainly benefited from enhanced sales capability and marketing efficiency.

Our general and administrative expense modestly increased by 0.4% to RMB 81 million from RMB 80 million in the prior year. As a percentage of revenue, it increased by 2.1 percentage points to 11.1% due to decreased revenue in the first quarter.

It is worth mentioning again that under challenging business environment, our net loss attributable to shareholders continued to improve substantially to negative RMB 54 million from negative RMB 72 million in the same period last year. And the corresponding net margin to shareholders improved by 0.7 percentage points to negative 7.4%.

Now looking forward to rest of the year, although we continue to see a degree of unpredictability in the market, our focus remains on improving third-party revenue. We will continue to enhance gross margin, focus on cost controls and expand overseas business to stay on our path to mid-term profitability.

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Next 2 pages, we listed key financial metrics of the first quarter 2024, including figures from discontinued operations, the Virtual Banking Business in Hong Kong. Lastly, we summarized the adjustments in non-IFRS gross margin for reference. Thank you.

Back to you, Rick.

Rick Chan
Head of Investor Relations

Thank you, Mr. Luo. Operator, Emily, we are ready for questions. Please open the line.

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Question and Answer

Operator
[Operator Instructions] Our first question today comes from the line of Lydia Lin with Morgan Stanley.

Chenyueya Lin
Morgan Stanley, Research Division

[Interpreted] So my first question is about the previous announcement on the termination of Ping An Insurance Group on Gamma platform. And I wonder what's the reason behind that and what would be the impact?

And the second question is about if management can share more detailed breakdown of the PAOB impact when it was extracted from our P&L?

Rick Chan
Head of Investor Relations

Thank you, Lydia. For both questions -- Mr. Luo will take both questions.

Yongtao Luo
Chief Financial Officer

[Interpreted] As we announced -- previously announced on May 7th, the change of the business is due to shifting changed procurement strategy for our customers. And as a service provider, we fully respect and understand their decision.

And we are currently in active negotiations with Ping An Group subsidiaries and associates to make -to ensure a smooth transition. And for more detailed information and more updates, we will publish new information accordingly and promptly.

Additionally, the change in the financial cloud business will not affect our other businesses as well. It will also not affect our relationship with Ping An Group, Ping An Group subsidiary and Ping An Group Associates.

Another comment would be that the change in cloud business will not affect our current strategy, which is to focus on 3 priorities, namely broadening customer engagement and standardizing our products as well as expanding overseas.

As we announced in April, namely on April 2nd, we received the consideration from Lufax for PAOB, which is HKD 933 million in cash. And as we announced in mid-April, we expect to record a profit of [RMB 262 million] in Q2.

The sale of PAOB has provided us with more working capital and thus has ensured that we have sufficient resources for future development.

Looking forward, the company will focus more on our strategic targets, namely our technology and products, customer expansion and expansion overseas.

Operator

The next question comes from Laura Li with CGS International.

Zhiyi Li
CGS International

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[Interpreted] Let me translate my questions. First question is about, when can we expect the [indiscernible] or the recurring premium insurance, premium from the P&C and auto insurance will benefit our digital insurance business.

And second question is about the Gamma platform. What kind of the driver or sustainable driver can we expect to be on Gamma platform revenues?

Rick Chan
Head of Investor Relations

Thank you, Laura. The both questions will be taken by Mr. Chongfeng.

Chong Feng Shen
Chairman of the Board & CEO

[Interpreted] Let me address your first question on insurance business. Despite recovery in premium volume last year, premium growth in the industry is still slowing down.

For P&C insurance companies, business development and profitability is still under pressure and profit targets for them are very challenging. As insurance in China continue to lower costs and improve efficiency, IT spending is likely to be affected over the short run. However, insurers will still need digital transformation to improve their operations, which could mean new business opportunity for OneConnect.

For Life Insurance on the other hand, business has been under challenge in the past 2 years to 3 years with agent number declining continuously. The industry is still recovering this year. Our Life Insurance business focuses on overseas markets. Despite being only a relatively new initiative, we've made major breakthroughs in the South African market, achieving sustainable revenue growth in recent years. Looking forward, we will strengthen overseas efforts and export more life insurance products to the international market.

Next, I'll address your second question about the growth driver of Gamma platform. As digital infrastructure, Gamma platform has experienced high customer stickiness. Looking forward for future growth engine, we will continue to leverage our technology strength and exploring new growth opportunities. We will maintain close technology partnership with Ping An Group to explore more proven scenarios.

We will differentiate from other peers through our AI technology and strength in IT innovation. On top of that, we will proactively explore overseas markets by deeply integrated Gamma platform with banking and insurance solutions. Through this, we will cross-sell more products to our customers and maintain our edge to our competitors.

Operator
Our next question comes from Alan Chen with Citigroup.

Wencan Kuang Chen
Citigroup Inc., Research Division

[Interpreted] Just want to follow up on the cloud business. Wondering if the business has already growth driven and what's the profit margin line? And given that we have seen business collaboration with the ability to pass beyond the cloud business and how would this impact our net loss reduction goal this year?

Rick Chan
Head of Investor Relations

For this question will be taken by Mr. Luo.

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Yongtao Luo
Chief Financial Officer

[Interpreted] As we announced, cloud business accounts for a major part of our business, revenue contribution was about 30% in the past 2 years. Additionally, as an infrastructure for our customers, revenue from this part of business remained relatively stable.

Cloud business is relatively profitable. And after the business shift has been completed, we will publish further information to the general public, including information on the impact of cloud business on our revenue and on our profitability.

As I mentioned previously, the change in cloud business will not affect the expansion of our other business, nor will it affect our relationship with Ping An Group and its subsidiaries.

We will continue to focus to pivot towards our strategic focus and remain committed to our midterm target -- midterm profitability target.

Operator
I would now like to hand the call back over to Rick for any closing remarks.

Rick Chan
Head of Investor Relations

Okay. Thank you. Thank you for participating in our call today. And if you have any questions, feel free to contact our IR team. And we always appreciate your interest in following us, and look forward to speaking with you again. Thank you.

Operator

Thank you, everyone, for joining. This concludes today's call, and you may now disconnect your lines. [Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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