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Q1 2020 360 Finance Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the 360 Finance First Quarter 2020 Earnings Conference Call. Please also note today's event is being recorded.

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

Mandy Dong ***360 Finance, Inc. - IR Director***

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

Before we begin our prepared remarks, I would like to remind you of the company's safe harbor statement in connection with today's earnings call. Except for any historical information, the material discussed on this conference call may contain forward-looking statements. These statements are based on our current plans, estimates and projections and 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 contained in any forward-looking statement. For more information about potential risks and uncertainties, please refer to the company's filings with the SEC in its registration statement.

In addition, this call will also include a discussion of certain non-GAAP financial measures. Please refer to our earnings release, which contain a reconciliation of the non-GAAP measures to the most directly comparable GAAP measures. Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in RMB.

I will now turn the call over to our CEO and the Director, Mr. Wu Haisheng.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

Well, I will translate for our CEO.

[Interpreted] Hello, everyone, and thanks for joining our earnings call today. The first quarter of 2020 was a highly unusual one, during which the entire fintech industry went through a COVID-19-induced extreme stress test. While maintaining a compliant and cautious operations strategy, we successfully passed the test with flying colors, attributing to our high-quality borrower base and a prudent internal management. Furthermore, we retained remarkable progress in every aspect of our business operations despite the challenging market conditions. Loan origination volume reached RMB 51.8 billion during the quarter and a 25.6% year-over-year increase. Outstanding loan balance increased to RMB 73.1 billion from RMB 72.2 billion in the fourth quarter of 2019. In terms of our financial performance, total revenue reached RMB 3.18 billion for the first quarter. If we exclude the impact of new accounting standards, non-GAAP net income reached RMB 764 million for the first quarter, one of the most exceptional results we have accomplished since our IPO.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] Despite the impact from the pandemic, every front of our operations improved essentially. Next, let me give you an update on the key progress since our last call.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] In terms of risk management, well as our models faced some pressure from the impact of the pandemic. They remained effective and stable. This bolstered a quick recovery of our underlying asset quality and improving momentum of the D1 delinquency rate and collection rate. Up to present, our D1 delinquency rate has fallen to 6.6%, while M1 collection rate has increased to above 85.8%.

Our M3 delinquency rate, which is a lagging indicator, went up to 2.17% compared to pre pandemic level. Nevertheless, this is a remarkable result amid the challenging environment. We continued to ensure a provisional coverage of 4x during the quarter, thanks to our strong operational and technical capabilities, we managed to provide a full and a transparent industry-leading information disclosure throughout the pre pandemic and the pandemic period.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] In terms of capital-light model under our Platform Service business, for which we take no principal risk, By the end of the first quarter, Platform Service business helped free up accumulated RMB 780 million in operational cash flow. Outstanding loan balance under the capital-light model accounted for 21.2% of total loan book, up from 19.5% in the fourth quarter of 2019. Going forward, our long-term growth strategy will focus on expanding our capital-light model while cautiously pacing the growth to ensure it aligns well with market dynamics and maximize shareholders' value.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] Well, in terms of operational efficiency, we proactively scaled back borrower acquisition activities and continued to cut down sales and the marketing expense during the quarter in response to market change. As a result, acquisition cost for each new borrower with approved credit line fell to RMB 159 from RMB 228 in the fourth quarter of 2019. This drop down in customer acquisition costs was attributable to that we brought down approval rate under a more prudent risk management strategy. Also, we carried on diversified strategy in customer acquisition activities in an effort to expand more channels and obtain users with better credit profiles. We have established a cooperation with various high-quality channel partners with consumption scenarios, such as Hellobike, Xiaomi and iQIYI. Since we provided more superior user experience, we expect more and more channel partners would welcome our partnership.

In terms of existing customer management, a virtual credit card product called V-pocket in Chinese, (foreign language), which we developed in the past, increasingly contributed to our users' stickiness in the first quarter. To elaborate, repeated purchase rate within 30 days reached 80%, indicating a monthly transaction number of 10 times on average. Additionally, we offered a credit limit upgrade product called (foreign language) in Chinese, which proved to be quite popular and it has accumulated 1.5 million users already.

Moreover, we launched a product called Intelligent Credit Engine (foreign language) Chinese, aiming to activate borrowers who haven't conducted their first credit drawdown on our app. This product proves to be quite effective as well.

In summary, we intend to explore different initiatives to enhance operational efficiency in every element of our business and boost user stickiness further. In addition, we have successfully issued 3 ABS this year so far. The cost of the most recent one reached a coupon rate as low as 4.2% in for the senior A tranche, contributing to a further decrease in overall funding cost for our credit-driven service to only 7.7% from 8% in the fourth quarter of 2019.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] In terms of compliance, as a leading fintech platform in China, we have always adhered to the highest standard in compliance. Together with BAT, JD, Lufax and other platforms, we were among the first batch of companies to receive approval to file our mobile finance app with the National Internet Finance Association of China. Among those on the list of approved mobile apps, we were one of the few platforms that is neither a financial institution nor a payment company.

Moreover, our 360 Jietiao app has received a level 3 testing certificate from China's National Computer Virus Emergency Response Center, the highest level issued by the institution.

In particular, our app received a level 3 rating for both privacy policy and data security.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] In addition, what's also worth mentioning is that China Banking and Insurance Regulatory Commission, in short CBIRC, for the first time, issued a consultative draft on the Guideline of Commercial Bank's Online Lending Business for public comments on May 9, 2020. The draft abandoned some "one-size fits all" thresholds in previous versions, such as regional banks geography constraints and funding constraint on joint lending. Instead, it differentiates consumer finance loan from business loan and sets separate regulatory requirements in terms of credit cap and tenor based on characteristics of respective loan product. We believe this will ultimately become the basic law for online lending business in China.

While maintaining a strict regulatory tone, this draft further legitimized online lending platforms in terms of business operations and substantially reduce regulatory overhang. This marks a significant milestone for China online lending industry and the loan facilitation business. Also, it manages that regulative measures and the support might roll out in a sequential manner. We view this regulation as beneficial to the industry, particularly leading players, and this promotes a more healthy business development environment. The regulatory development is in line with our anticipation.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] We always believe that the strict regulatory requirements and the economic downturn pressure would benefit top players backed by industry giant, while gradually weeding out small, medium platforms that are too weak to compete. This trend known as Matthew Effect has so far been proven in the first quarter.

As the booming demand within the consumer finance market continues, we will be well positioned to capitalize on the growing opportunities and will harvest more market share with a promising outlook. Hence, we would like to illustrate our full year guidance of loan origination volume, which is RMB 200 billion to RMB 220 billion. In the short term, taking into consideration of the gradual recovery market and the pandemic both in China and globally, our asset quality has always already entered into a steadily improving momentum as indicated by recent recovering operation data.

We will plan and carry out our business operation with cautious optimism for the rest of the year, aiming to vigilantly grow loan origination volume and the number of borrowers. This will further bolster up both quantity and the quality of our loan portfolios.

We remain in confidence to deliver more outstanding results to our shareholders in the coming quarters.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] Well, I will hand over to CFO to -- [CFO] remarks.

Jiang Wu ***360 Finance, Inc. - CFO & Director***

Okay. Thank you, Haisheng. And thank you, [Mandy]. Good evening, everyone. Haisheng just shared with you a lot of exciting news about our first quarter and the coming quarters going forward. My part would be a little bit more boring talking about the new accounting standards. So please bear with me. So we see a very -- a quite unusual quarter compared with the previous ones. Not only because of the outbreak of COVID-19, but also the complicated situation by the new accounting standards. So let me start off by explaining the difference between the new accounting standards we adopted starting this quarter and the new ones and the migration between these two. Hopefully, we will give you a clear guidance after these remarks on how to read our statements.

As a U.S. listed company, we are required to adopt the new accounting standard ASC 326 Financial Instruments—Credit Losses from this year. In consequences, our results this quarter are not directly comparable with previous quarters on a like-for-like basis. In consideration of helping all stakeholders better understand the impact of the new accounting standards as well as provide a more accurate reflection of our business and financial performance. I would like to spend some time working you through how the new accounting standards have impacted our financial statements.

As we provide guaranteed services for Credit Driven Service business, at the inception of each loan, we estimate expected guarantee revenue and recorded contingent guarantee liabilities with provisions for the potential credit losses.

Under the old accounting standards, provision for the above-mentioned guarantee liabilities and guaranteed revenue are net off directly on the very first day of loan inception. However, under the new accounting standards, guarantee revenue is required to be recognized at amortized schedule through the loan life cycle, whereas provision for this contingent guarantee liabilities remain to be recorded as a whole at day one.

Two key points to emphasize here. First, the amortized recognition of guarantee revenue is not related to the actual credit loss of the loan. To put it in a plain way, even if the loan eventually becomes defaulted, guarantee revenue will still be recognized by each installment as originally scheduled. The credit losses are amount accounted for by adjusting provisions and guarantee liabilities.

Second, from the perspective of asset quality, the old and new accounting standards make no difference. The only change lies in the accounting treatment on paper and a timeline of recognition. As a result, for each quarter going forward, there will be 2 additional items in -- on our income statement. One is provision for contingent liabilities under the expense line, which accounts for the estimated credit loss associated with the contingent guarantee liabilities, driven by the new loan originated during the specific quarter. And the other one is revenue from releasing of guarantee liabilities, under the revenue line for guarantee revenue released at amortized schedule driven by the historical loan assets.

During the first quarter this year, provision for contingent liabilities were RMB 1.7 billion while revenue from releasing of guarantee liability was RMB 1 billion. Furthermore, the new accounting standards require a onetime adjustment of expected credit loss related to existing loan portfolios, which is reflected in the open balance of the return earnings at the beginning of 2020. This translated into a

RMB 1.4 billion reduction in our retained earnings.

I would like to draw your attention here that the decrease of the retained earnings mainly results from the recognition of the contingent guarantee liabilities and stand-ready guarantee liabilities and inception of the guarantees in accordance with the new standards. The stand-ready guarantee liabilities, which is the asset item, will be recognized or say, released as a guaranteed revenue on an amortized basis over the lifetime of the loan. This has no impact whatsoever on net income, business operations and asset quality when the guarantee service expires.

Hopefully, that provides more conceptual clarity on the impact of new accounting standards. Now let's take a look at the number of changes on our financial statements due to this new accounting standards.

First, as you can see, on our P&L, there is a revenue line on the Credit Driven Service segment titled revenue from releasing of guarantee liabilities, which represents the above-mentioned guarantee revenue recognized for historical loan portfolios at amortized schedule. This line amount RMB 1 billion under the new standards and RMB 170 million under the old standards. Second, there is an expense line titled provision for contingent liabilities, which stands for provisions set aside for the estimated credit loss associated with the contingent guarantee liabilities, driven by the new loan originated in the first quarter, which is RMB 1.4 billion. The remainder is the additional provision of RMB 280 million, which accounted for the additional provision to cope with the deterioration of asset quality of the historical loan portfolios due to COVID-19.

Thirdly, on balance sheet, for a sub line titled returned earnings in shareholder equity section. The balance of accumulated retained earnings decreased by approximately RMB 1.25 billion compared with year-end 2019. The decrease represented an aggregate amount of RMB 1.4 billion reduction to the opening balance of return earnings, which accounted for onetime provision for existing loan book required by the new accounting standards and RMB 183 million increase in -- to return earnings attributed to net income attributable to ordinary shareholders in the first quarter.

Well, hopefully, you are not lost in my boring explanation on the accounting standards. Just in case that you are already lost, we have prepared a few slides, which will be available on our IR website in the coming few days to illustrate the migration from the old accounting standards to the new ones, so which is essentially what I mentioned just now.

Okay. With the clarification of the new accounting standards, I would like to now go over like-for-like basis analysis on financial performance under the old accounting standards in an effort to help stakeholders better understand our business operation in the first quarter.

Firstly, as Haisheng just mentioned that under the old accounting standards, the total net revenue was RMB 2.3 billion, representing a 16.7% year-over-year increase and relatively flat on the quarterly basis, which was remarkable in our sense, given the hit of the COVID-19 during the same period. Non-GAAP net income was RMB 764 million, representing a 48% quarter-over-quarter increase. One of the most exceptional quarters we've ever had since IPO.

Secondly, in face of significant macroeconomic uncertainty during the pandemic, we have undertaken decisive initiatives to cut down costs and enhance operational efficiency. For instance, customer acquisition cost for each new borrower with approved credit line dropped down further to RMB 159 in the past quarter compared with RMB 228 in the fourth quarter of 2019. Total sales and marketing expense fell to RMB 223 million in the past quarter, from RMB 425 million in the fourth quarter in 2019. This was the third consecutive quarter on the improvement of customer acquisition efficiency and the financial discipline. And another solid cost-efficient enhancement lay on our funding side.

As Haisheng just mentioned, in the past quarter, we continued to develop cooperation with more institution funding partners despite the severe challenging market conditions. The number of the institution funding partners we worked with increased from 81 to 84 by end of the past quarter. The first -- this further brought down the overall funding cost to 7.7%. In addition, we successfully issued 3 rounds of ABS in 2020 with a total size of more than RMB 1 billion. The latest round of the issuance hit a historical low record of funding costs at 4.2% for the senior tranche -- senior A tranche. We believe this is a strong reflection of financial institutions' faith with us.

Thirdly, given the negative impact from volatile markets on the asset quality, we continued to roll out prudent operational and financial initiatives to offset the impact. Our effort were primarily reflected in 3 dimensions. First, in terms of the leverage ratio, under the old accounting standards, it went down continually to 7.7x from 8.1x in the fourth quarter of 2019. This was primarily driven by the increased proportion of our capital light model as Haisheng just mentioned.

While the -- our total outstanding loan balance continued to grow, the portion of the Credit Driven Service business actually decreased to RMB 57.6 billion at the end of the first quarter from RMB 58.1 billion as the year-end of 2019. Second, in the fourth quarter of 2019, we booked additional provision of RMB 735 million to enhance our provision coverage ratio to 4.4x, as we noticed the challenge on the asset quality due to unfavorable market conditions.

In the first quarter of this year, we had witnessed the deterioration of the asset quality in February, but then it slowly returned back to the normalized level. Hence, we further booked provision of RMB 280 million to maintain a 4x provision coverage ratio.

Third, our cash result hit a historical record of RMB 6.8 billion. Excluding cash deposit required in operations, registered capital for various business license and operational working capital, our free cash flow recorded at the highest level of RMB 1.6 billion in the first quarter. This was largely benefited from our diligent efforts on cost control and operational efficiencies, such as reducing the turnover days of accounts receivables and reasonably increase the turnover days of payables to our business partners during the COVID-19 situation. All these efforts have not only equipped us with the flexibility to navigate the pandemic storm, but also position us to capture the historic and the enormous growth opportunities when we exit this crisis.

Finally, let me give you some color about our outlook for the second quarter and full year from a financial perspective. First, our business during the second quarter has improved remarkably on a sequential basis and should be reflected in our financial performance in the coming quarter.

We expect a decent growth in terms of both top line and bottom line on our P&L in the second quarter. Based on our current assessment, we do not expect to incur any further additional provisions for credit losses triggered by the deterioration of asset quality in the near future.

With the guarantee revenue from historical loan book being recognized over time, we expect shareholders' equity to gradually return to a healthier level. Second, we are still evaluating market conditions to decide whether we will resume a scalable expansion of business. However, we should remain vigilant on the potential second round of negative impacts due to the global pandemic development. Hence, we would like to maintain our full year 2020 guidance. No change.

That concluded my remarks. Thank you, everyone. Now we are open for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from John Cai at Morgan Stanley.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Congratulations on the results. So I have a few. I'll probably ask them one by one. So firstly is on the accounting adjustment. So I noticed that the release mentioned there is around RMB 840 million revenue result from this accounting change, and then there's RMB 1.4 billion cost. So simply put, the difference is the accounting adjustments, and I think it's roughly 540 -- sorry, RMB 580 million. So -- and when I add this number to our profit, it seems to be in line with the RMB 764 million non-GAAP net profit under your standards. So the first question is really just whether this understanding is correct?

Jiang Wu ***360 Finance, Inc. - CFO & Director***

John, yes, you are correct.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Okay. So -- and follow-up on that is on the RMB 1.4 billion incremental costs. So if I look at this number in the context of the guarantee of balance sheet origination, I guess that's what the impact would have. So if I divided this by the origination of balance sheet guarantee loan, the number is 4.5%. So does that reflect our lifetime loss estimate for the first quarter originated loan? And it seems a little bit high given our D1 delinquency is roughly 6% to 7%. So yes, I just want to confirm this.

Jiang Wu ***360 Finance, Inc. - CFO & Director***

First of all, I need to take a look at your calculation formula, but that number is quite close compared with our calculation. And just a small reminder, this is not the vintage. This is our provision. So it's more like a coverage, right? So probably our CRO will give you more flavors on the vintage loss numbers. But here, what I can say is that this is to cover the first quarter's estimate loss throughout the lifetime, and we provide a sufficient buffer. As I just mentioned, we will maintain the 4x coverage ratio to secure this -- to make sure the stability of our business.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Okay. And so also related to risk. Basically, I think we mentioned that the provision for old loans originated in previous period is RMB 280 million. So I guess if we exclude the accounting change, the guarantee release from the old loans without the accounting impact is also around RMB 280 million. So basically, we don't have any incremental provision for this quarter, meaning that the release of the previous set aside guarantee is able to fully offset the incremental provision. Is that a proper understanding as well?

Jiang Wu ***360 Finance, Inc. - CFO & Director***

Well, that -- those numbers are slightly off. So for the revenue from releasing of the guaranteed liabilities under the old standards, was RMB 170 million, RMB 170 million, not RMB 280 million. That -- and by the way, that was the highest level throughout -- since our IPO. Then for the additional provision on the guaranteed liabilities to cope with COVID-19 was RMB 280 million. That part, you are correct. That was under the old standards.

John Cai ***Morgan Stanley, Research Division - Research Associate***

Okay. And so finally, on the D1 -- I'm sorry, on the M3+ delinquency. I think this is lagged by a quarter. So the ratio is above 2% now. And I think it does not include the impact from COVID-19 so -- because it's -- happened in the first quarter. So how should we expect this number to trend in second quarter? And also is it -- does the pickup in first quarter due to the collection tightening in the fourth quarter other than the COVID-19?

Jiang Wu ***360 Finance, Inc. - CFO & Director***

Well, do you mind to translate in Chinese so our CRO can answer a little bit?

John Cai ***Morgan Stanley, Research Division - Research Associate***

Yes, sure. (foreign language)

Yan Zheng ***360 Finance, Inc. - VP***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

So should I translate for the English audience on the call?

Yan Zheng ***360 Finance, Inc. - VP***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

Yes. Okay. John, this is the response from our CRO's view.

[Interpreted] First of all, M3 delinquency rate is a time lagging indicator. Well, we will suggest to look at more meaningful metrics, as we stated in the presentation we put on our IR website, which is the adjusted delinquency rate with the denominator is the loan balance as of 2 quarters ago, and the numerator is delinquency -- delinquent amount. That's the first point.

Second point, as for the impacting factor for this M3 delinquency rate, yes, you are correct. As this is a time lagging indicator, it will be affected by the government restriction in -- which happened in the fourth quarter of 2019. But moreover, we think you should look at some leading indicators, as we disclosed, one is D1 delinquency rate, the other one is expected M1 collection rate.

So all in all, we will expect to see the M3 delinquency rate based on pressure in the coming quarter, but still our recommendation is to focus -- the leading indicator will give you a better sense of our business performance.

Yan Zheng ***360 Finance, Inc. - VP***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

Let me translate for our CRO.

[Interpreted] Again, I would like to stress, is a better way to understand our business by looking at the indicator, which is D1 and M1. To elaborate more, recently, our D1 delinquency has dropped down to the similar level as that in the fourth quarter of 2019. In addition, if we look at this data week-by-week, well, week-by-week is a descending trend. For M1 collection rate, it has recovered to above 86% already. Recently, if we take a closer look, we believe it has -- it probably will go higher, reaching 87% in the near future. So in all-in all, we believe we -- the asset quality of our business is in the steadily recovery momentum. That's the first point.

The second point, to address your question about M3 delinquency rate. We will suggest you to look at our provisional coverage ratio, which we successfully maintained the 4x pre pandemic and now.

John Cai ***Morgan Stanley, Research Division - Research Associate***

(foreign language) So my final confirmation is about whether the current provision level has fully reflected the potential loss due to the tightening of collections in the fourth quarter and also the COVID-19 in the first quarter.

Jiang Wu ***360 Finance, Inc. - CFO & Director***

Yes, John, you are right.

Operator

(Operator Instructions) Our next question is from Jacky Zuo at China Renaissance.

Jacky Zuo ***China Renaissance Securities (US) Inc., Research Division - Analyst***

So first question from me is on the second quarter outlook. Can you share with us about the recent loan origination volume trend? So I think we guided a stable loan volume for the second quarter. But just wondering if we see some pickup signs recently? And probably more on that is on what condition, we will increase our loan origination volume? Would that happen in the third quarter, given the current judgment? And the second question is on the funding. So I heard that our funding costs further reduced to 7.7% in the first quarter. Just trying to get some color on the reasons behind this decline in funding costs. Are we seeing more demand after the new regulations on banks on the lending business? And are we getting more funding from like national big banks? And definitely, we have some impact from the low ABS issuance as well -- low-cost ABS issuance as well. So that's on funding. And my final question is on the new product mentioned by our CEO is called (foreign language) basically the virtual credit card product. So just want to get more color about the number of users and kind of the profitability of this new product.

So I will translate my questions. (foreign language)

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

Okay. Let me translate for our CEO response on your question, Jacky.

[Interpreted] First of all, even looking -- if we anticipate the outlook in Q2, as the Chinese government gradually contained pandemic domestically, and the market is -- markets are recovering, we do witness the improving trend in our operating data, our asset quality and operation efficiency. Therefore, we believe we can expect a stronger quarter in the coming -- in both in operational and financial aspect.

As your question for the Q3 outlook, well, we believe it's kind of too early to see, but we will stay in a vigilant manner to expand our business in -- for the rest of the year, which depends on a few factors. Number one is the global pandemic situation. As you know, living in a global village, no one can stay safe if other houses catch fire. The second factor we look at is the tension between Chinese -- China and the U.S., which will lead to -- which will impact the export industries in China. Luckily, from the current data, we see the limited impact from the second reason.

So to summarize, when we can have better visibility, we will communicate to market, our business plan.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] And for your question about the dropping down of the funding cost, well, of course, we see a very sufficient liquidity in China market. For example, as you can see, we successfully issued 3 ABSs so far this year. However, we believe the main reason lies in that loan facilitation platform, who possessed better quality assets, are gaining more and more bargaining power in the corporation with funding institutions, as you can see in this year, more and more small platforms are having trouble in their asset quality.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] Well, as for your question about the V-pocket, Chinese (foreign language), in short, it's -- it is very -- it's the same profitable level, same as our core product 360 Jietiao. And also, it's -- I have to increase our users' stickiness. To elaborate, well, this product we developed in the past, basically, essentially is a virtual credit payment aiming to increase the user stickiness and the retention rate. As I stated in my remarks, the 30-day repurchase rate is 80%, which means 10x transaction in a month on average. Nowadays, it accumulated 480,000 users with average RMB 30 million loan origination daily. I hope that answers your question, Jacky.

Operator

Our next question is from Daphne Poon at Citi.

Daphne Poon ***Citigroup Inc, Research Division - VP & Senior Associate***

So I have 3 questions. First one is that on your vintage delinquency rate, just can you update on your latest expectation for the vintage loss rate for Q1 and also for the new loans originated in the second quarter? And second is related to that is what would be your outlook for the provisions in the second quarter? I think you mentioned earlier is that you expect earnings, both top line and bottom line to improve meaningfully. So I think part of that is related to a lower provision. So I just want to get a better sense, should we expect both a bigger release of the guarantee liabilities in Q2? And also will the provision on your new loans come down as well in the second quarter? And then the last question is regarding your customer acquisition. So that your Q1 traffic costs, we see a meaningful decline. Just wondering what's the driver behind? Do you see more of industry trend or more because of your efforts to improve your customer acquisitions model? And do you expect that decline like this low customer acquisition cost to sustain or to decline further? And can you provide currently a mix of your different customer acquisition in channels, especially like how big is the contribution from those new like consumption scenarios that you were talking about in your prepared remarks? (foreign language)

Yan Zheng ***360 Finance, Inc. - VP***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

Okay. Let me translate the first question, Daphne. This is comments from our CRO.

[Interpreted] Well, we do see the D1 delinquency rate and the M1 collection rate came out better than what expected. However, we stay cautious and reiterate our previous guidance about the vintage loss, which is 2.5% to 3.5% for this year. Also, we do see a trending momentum quarter-on-quarter basis.

Jiang Wu ***360 Finance, Inc. - CFO & Director***

And Daphne, let me answer your second question about the provision. Before I dive into the details, just a small reminder on Q4, on the earnings call, we mentioned that due to the uncertain macro situation, we provide roughly RMB 750 million additional provision due to the potential loss, right? So when I just mentioned in my remarks that we will not see any further additional provision on that perspective, it's under the same concept. So as our CRO just mentioned, our lifetime expected loss for the whole year will be within a range of 2.5% to 3.5%. And overall on the quarter-by-quarter basis, you will see the vintage loss will decrease a lot in the coming few quarters. So that's why what we said in the second quarter and the third quarter and going forward, the -- there will be no additional provision on that front. That -- obviously, that's under the assumption that there is no second round of negative impact of COVID-19. Hopefully, I answered your question 2.

And now I turn to our CEO for your third question.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] Sure. So we believe the drop-down in our customer acquisition costs results from a few factors. Number one for the industry change you just mentioned, in our view, that's probably not the main reason. As we can see in the first quarter, the fierce competition between e-commerce business and in the gaming business, in the advertising sector is still increasing. Second, the -- we believe the second reason may contribute more for the drop-down in customer acquisition costs, as we slowed down and scaled back our customer acquisition activities, which lead to the decline in marginal cost. Thirdly, as we continuously refine our customer acquisition strategy and expand to more and various high-quality external partners, this will contribute to the drop down.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

Sure. Let me translate for CEO.

[Interpreted] There are 2 points I want to stress here. Number one, we continued to refine our marketing strategy targeted to have a higher ROI. For example, in -- among the top online channels we launched our marketing strategies, for example, Bytedance, as you know, it covers 50% of the market activities we devoted under this refined marketing strategy. Secondly -- the second point, as we mentioned in our remarks, we expanded the external channels with consumption scenarios. Nowadays, it contributes to 15% of our total traffic. Hope that answers all your questions, Daphne.

Daphne Poon ***Citigroup Inc, Research Division - VP & Senior Associate***

Yes. Can I just follow-up on the channel partnership? How much lower can the customer acquisition cost be? And is that actually based on a revenue-sharing model? So I would translate in Chinese. (foreign language)

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] Well. As you mentioned, mostly, we cooperate with these partners in the revenue-sharing model. That's the first point. The second point, as you can see, the traffic in those consumption scenarios with purpose to shop. Therefore, they can give us better quality users with a better credit profile.

Operator

(Operator Instructions) Our next question is from Steven Chan at Haitong International.

Steven Chan ***Haitong International Research Limited - Executive Director***

I have 3 questions as well. Just make it very quick, I think I better translate one by one and do it one by one. First of all, about my own estimation about the take rate of the capital-light business, it seems that it has been declining in Q1. So just want to know whether it is related to you trying to refer better quality customers and then, of course, lower lending rate customers to your funding partners on that part or because you have to share fewer profit from the funding partner because of the deterioration in asset quality. (foreign language)

Jiang Wu ***360 Finance, Inc. - CFO & Director***

Steven, this is a very good question, and you're really good to analyze it in such a short time. Thank you for raising the question. It's kind of a hybrid. First of all, obviously, all the assets deteriorated in the first quarter, especially in February. So we have a lot of measures to preempt the situation. And first thing is that we renegotiate some terms with some funding partners or business partners in terms of the charge. So to some extent, the charge is slightly lower than the Q4. But the most important thing is that after the negotiation with the business partners, we kind of repeat what we did in the Q4, i.e., we speed up the payback schedule before the terms. So in our -- internally, we call it the discount rate, it's actually higher. So let me put an example. So for example, there is a 12 terms loan. During the first quarter, we kind of work with our business partner to encourage the borrowers to repay the principal and interest early. Say now it's only 8 terms, 4 terms left. So we ask them if you pay them back now, we will waive all the interest, not only for the rest of 4 terms, but also probably give you 1 term interest-free treatment, something like that. So the discount rates, so-called discount rate is actually getting higher a little bit. So all in all, our takeaway on the capital-light will be slightly lower compared with Q4. So your adjustment is right.

Steven Chan ***Haitong International Research Limited - Executive Director***

Okay. I understand. Second question, I think it's similar to Daphne's question. But I want to get more sense about this provision for contingent liabilities, excluding that RMB 280 million, you still have RMB 1.4 billion provisions in 1Q. So I just want to clarify whether this RMB 1.4 billion is purely related to asset quality issue or you still have some sort of like macro outlook or other parameters, putting into the credit risk model and resulting in some provisions? I mean, compared with banks, it's just like whether you still have some stage 1 and 2 provisions, like what you see for banks that means that it's more related to macroeconomic outlook rather than asset quality? If yes, how much will that be? And then I think the follow-up on Daphne's question is, do you expect there will be conversion -- converging trend between the provisions and the release in the revenue? That means that the gap between the release in liabilities and the provisions will be reduced. (foreign language)

Jiang Wu ***360 Finance, Inc. - CFO & Director***

Okay. Let me answer your question here. So I think you have 2 parts of the question. The first part is, how do we evaluate the asset quality. Obviously, in the evaluation model, we need to take into account of the macro economy and even some potential impact of the Sino-U. S. tension situation. So it's kind of blended together. It's difficult to divide -- or say, quantify the impact of the macro economy versus the pure operation or say the industry level or our company level numbers. So everything is taken into consideration. And also, this is for the asset generated or the originated for Q1. So as John just mentioned, there is an easy way to calculate that, is you just use RMB

1.5 billion divided by the new loan origination under the capital heavy model in Q1. It will give you a rough sense how much provision we've actually taken. So the number would be quite close to 4-point something. This is taken into account of sufficient coverage ratio.

Okay. Then your second question is whether there is a sort of calculation between the -- this provision and the releasing of guarantee liabilities going forward. The short answer is, it's a very difficult question for everybody because every single quarter, we need to re-evaluate the asset quality based on that quarter's situation. So it's hard to say that. But I can give you an example. So this quarter, just under the old accounting standards, the releasing of the guarantee liabilities was -- is RMB 170 million. As I just mentioned in my remarks, it is the highest level of the releasing of guarantee liability. The reason is that in Q4 last year, we take a more prudent measure to pick provisions. It turns out the actual performance is better than our estimates. So we released a significant amount of money to our revenue. So going forward, if today's estimate is too pessimistic compared with the future, we are confident to see the releasing of guarantee liability will go up. On the contrary, if there is a second round of the negative impact of COVID-19, we might take additional provision in -- down the road, that might -- mean we have less release of the guarantee liabilities on revenue. But there is no crystal ball, say, you can accurately forecast the number or say the breach between this provision and releasing of accounting liabilities. Hope I answered your question.

Steven Chan ***Haitong International Research Limited - Executive Director***

Very clear. Finally, my question is about the provision for loan receivable, which nobody has -- tried to ask. Because if you try to estimate that using a credit cost concept, meaning that you divide it with the average outstanding loans, it seems that it has increased again in Q1. So again, I just want to clarify one thing. In these provisions for loan receivable, apart from asset quality, did you also put in the macroeconomic factors when you try to estimate this so-called on balance sheet lending business? (foreign language)

Jiang Wu ***360 Finance, Inc. - CFO & Director***

Yes. Steven, this is a very good question. There were 2 main factors that lead to the decrease of the provision for loan and amortized costs. First of all, remember, we talked about this in the past few quarters, almost every quarter, we say, we see the funding cost from consolidated charges was actually low compared with the funding costs from financial -- the banks, so we take more on -- through the consolidated trust, right? But the situation changed in Q1 because the funding cost of financial institutions, I mean, banks decreased significantly, which leads to -- led to the relatively high funding cost of the trust. So in Q1, we actually intentionally decreased the contribution from the consolidated trust as a funding source. So that's the primary reason for the decrease of provision. The second thing, yes, you are right. In Q4, we see the unfavorable industry situation. And also, when we prepared the results, that was in Q1. So we kind of estimated there would be a significant hit on the asset quality. But when we prepared the Q1 results, we definitely took into account of the macro situation. Obviously, now today, the pandemic issue is much less concerned than what we've seen in Q1. So the overall vintage loss -- as I expected vintage loss decreased a little bit, slightly, not too much, but that will contribute to the relatively low provision on the on-balance sheet assets. So basically, these 2 key reasons drive the decrease. I hope I answered your questions.

Operator

Our next question is from John Cai at Morgan Stanley.

John Cai ***Morgan Stanley, Research Division - Research Associate***

It's just -- want the management to maybe help me to understand a little bit more about the competitive -- competition landscape. So I think we operate in a segment with a price on average is 28%. Correct me if I'm wrong, but it's on average, 28%. So -- and we understand that the small or medium players are exiting in the market. So there any -- so basically, the question is how many competitors, mostly those unlisted competitors because that is -- then we can have a look by ourselves. But how many unlisted players with decent size in this on average 28% segment we are seeing in the market? And are they in very close competition to us in terms of the risk management, et cetera? (foreign language)

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

Okay. Let me translate for our CEO.

[Interpreted] First of all, John, you could have very good way to segment the loan market -- consumer finance loan market in China by APR. Well, as for the primary competitors you mentioned, we believe you referred to Ant, WeBank, JD, most of them -- offer products which is below 24% APR. So by your segmentation, we may not operate in the same subsegment with those primary competitors. However, we do conduct some customer research and find out that in terms of the users, we may belong to the same category with those private competitors, which manifests that there are some -- there are loan users that may not be sensitive to the APR, but they lay more emphasis on the user experience and the service.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

[Interpreted] Well, to provide our competitive strengths compared to the 3 group competitors you mentioned. The first one -- the first type of competitor is the private competitor, for example, Ant, WeBank because they operate in the lower APR market, the competition directly confronting them is quite limited. Second type competitor as you mentioned is the listed in U.S. market. While we have strong confidence -- that we are an Internet giant backed consumer finance company. We got a strong support from our parent co 360 Group. Therefore, we possess structurally advantage in aspect of risk management, traffic, and a brand and so on. Thirdly, the third type -- compared to the third type of competitor, which are the licensed consumer finance, we viewed them as mostly the funding partners in this consumer market. So we overrank them in terms of the risk management ability and user experience provided to the borrowers. Well, I hope that's a little bit color on the competitive landscape to address your questions John.

John Cai ***Morgan Stanley, Research Division - Research Associate***

(foreign language)

Mandy Dong ***360 Finance, Inc. - IR Director***

Okay. Operator, are there any more orders on the question line? If not, maybe we can conclude the call today.

Operator

There are no questions on the line. So this concludes today's conference call. Thank you all for your participation. You may disconnect.

Jiang Wu ***360 Finance, Inc. - CFO & Director***

Thank you.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]