

Continued proactive optimization of customer mix puts near-term pressure on loan origination volume

Key takeaway

In 1Q26, the company achieved revenue of RMB3.91bn, down 4.5% QoQ and 16.7% YoY. Non-GAAP net profit was RMB0.95bn, down 11.6% QoQ and 50.9% YoY. Non-GAAP EPADS was RMB 7.70. In terms of customer acquisition and loan origination, the company proactively optimized its user structure by focusing on high-quality customer segments, resulting in near-term volume pressure but improved quality. Total loan facilitation and origination volume in 1Q26 was RMB65.03bn, down 7.5% QoQ and 26.8% YoY. Of this, loans under the light capital model amounted to RMB31.42bn, down 28.3% YoY, with its proportion rising to 48.3%. On risk metrics, the first-payment default rate declined to 5.7%, while the 30-day recovery rate improved to 85.8%, up 1.8 pcts QoQ. The 90-day+ delinquency rate rose to 3.5% QoQ. ABS issuance volume reached RMB2.9bn in the first quarter, up 16% QoQ. The proportion of ABS in the funding mix increased by 6 pcts, driving an approximate 10 basis point QoQ decline in overall funding costs.

Event

On May 27, 2026, Qfin announced its 1Q26 earnings results.

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Qfin Holdings (QFIN.O)

Maintain

Buy

ZHAO Ran

zhaoran@csc.com.cn

021-68801600

SAC Reg. No.: S1440518100009

SFC CE Ref.: BQQ828

LI Zihao

lizihaodcq@csc.com.cn

010-56135214

SAC Reg. No.: S1440524070018

SFC CE Ref.: BXU681

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Current Price: USD12.59

6-month TP: USD17.56

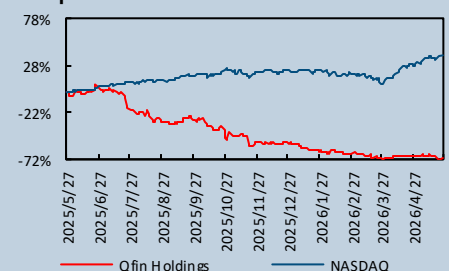
Key Data

Absolute/relative share performance (%)

1 Month	3 Months	12 Months
-3.23/-10.55	-13.71/-28.84	-70.39/-112.65

The highest/lowest price in recent 12 months(USD)	45.80/11.65
Total shares outstanding (10,000 shares)	12,191.20
Tradable shares (10,000 shares)	12,191.20
Total market cap (USD'00mn)	15.35
Tradable market cap (USD'00mn)	15.35
Average daily trading volume over last 3 months (10,000 shares)	148.14
Major shareholders	
Aerovane Company Limited	19.10%

Share performance



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Quick Take

In terms of customer acquisition and loan origination, the company proactively optimized its user structure by focusing on high-quality customer segments, resulting in near-term volume pressure but improved quality. As of the end of March 2026, the platform had connected with a cumulative total of 167 financial institutions. Cumulative registered users reached 297.5 million, up 11.0% YoY. Cumulative users with approved credit lines reached 64.8 million, up 11.0% YoY. Cumulative users who successfully withdrew funds reached 39.5 million, up 11.3% YoY. Total loan facilitation and origination volume in 1Q26 was RMB65.03bn, down 7.5% QoQ and 26.8% YoY. Of this, loans under the light capital model (including ICE and full-process technology solutions) amounted to 31.42 billion, down 28.3% YoY, with its proportion rising to 48.3%. Despite the overall contraction, the user structure improved significantly: investment in high-quality users increased by approximately 40% QoQ in the first quarter, and the proportion of high-quality users among newly approved credit users rose by 6% QoQ. Meanwhile, the average loan pricing IRR declined by 80 basis points QoQ to 18.7% (a cumulative decline of 2.2 pcts over the past two quarters), reflecting the company's proactive adjustments in transitioning to high-quality customer segments and its competitive pricing strategy.

On risk metrics, proactive risk control measures prove highly effective, and an inflection point in asset quality is established. The company has been tightening its risk control policies since the second half of 2025, achieving comprehensive improvement in core leading risk indicators. (1) The C-M2 ratio (proportion of loans overdue by more than 30 days after collection intervention) fell 17% QoQ to 0.8%, returning to the levels seen in July-August 2025 and largely achieving the risk optimization target; (2) the first-payment delinquency rate declined to 5.7%; (3) the average FPD7 for newly issued loans dropped 5% compared with December 2025, and the FPD30+ delinquency rate fell sharply by 22% QoQ; (4) the 30-day recovery rate rose to 85.8%, up 1.8 pcts QoQ, mainly driven by enhanced scorecard models and more refined collection strategies. In terms of lagging indicators, the 90-day+ delinquency rate rose to 3.5% QoQ, primarily reflecting the lagged release of risks from legacy assets at end-2025. On the provisioning front, total new provisions in 1Q26 amounted to approximately RMB1.68bn, down 12.5% QoQ; the provision coverage ratio stood at 391%, which, although lower QoQ, remained at an ample level, providing a safety buffer against potential risks. According to the latest operating data for April-May, the C2M2 ratio remained stable and continued to improve modestly. Overall risk performance in 2Q26 is expected to be better than that in 1Q26.

Funding and cost: The ABS share increased, while funding and customer acquisition costs continued to decline. Amid industry liquidity pressure, the company's ABS issuance reached RMB2.9bn in the first quarter, up 16% QoQ, with the ABS share of the funding mix rising 6 pcts, driving the overall funding cost down by approximately 10 bps QoQ. As of the end of the quarter, the number of partner financial institutions remained stable at 167, with funding channels staying diversified. Thanks to improved marketing efficiency and channel optimization, customer acquisition costs also fell 17% QoQ.

Shareholder returns: The balance sheet continued to be strengthened, with active buybacks demonstrating confidence. As of May 26, 2026, the company had cumulatively repurchased, with USD502mn in cash, a total principal amount of USD577mn of convertible bonds due 2030, leaving approximately USD113mn in outstanding

principal and significantly reducing long-term liabilities and interest expenses. Management indicated that, subject to regulatory clarity, the company may resume share buybacks at an appropriate time and will maintain a progressive dividend policy to continue generating returns for shareholders.

Earnings forecast and valuation: In the near term, weak consumer credit demand and regulatory uncertainty are expected to persist. The company projects 2Q26 non-GAAP net profit in the range of RMB900mn to RMB980mn, representing a YoY decline of 47%-51%. Over the long term, the company continues to adopt a prudent operating strategy in exchange for a higher-quality asset structure. As industry consolidation accelerates, the company, as a leader leveraging its AI technology moat, funding cost advantage, and its "One Body, Two Wings" strategy, is well-positioned to achieve higher-quality growth once the cycle recovers. Therefore, under the new reporting basis after excluding RM SaaS, we project 2Q26 loan originations to be approximately RMB 64.2 billion, down 1.3% QoQ; Non-GAAP net income is expected to be RMB 860 million, down 9.5% QoQ. For the full year, the company's revenue is projected to reach RMB 15.3 billion in 2026, reflecting a year-on-year decline of 20%. Non-GAAP net profit is expected to be RMB 3.4 billion, corresponding to a year-on-year decrease of 46%. As of the close on May 27, the company's valuation was approximately USD 1.782 billion, corresponding to a PE multiple of 3.55x. The "Buy" rating is maintained, with a target price of USD 17.56.

Risks

Stricter regulatory policies: Internet consumer finance platforms are already in a "normalized" strict regulatory environment. Regulatory policies have imposed strict controls on various aspects such as regulatory ratings, borrower

management, and interest rates. With new developments such as the inclusion of personal credit data and internet technology innovation, regulators may further enhance supervision on the business expansion of the platforms, affecting existing profits. Therefore, the risk of stricter regulatory policies cannot be ruled out.

Asset quality risks: Basic asset risks refers to the impact of macroeconomic policies and economic conditions on basic asset risks. During economic downturns, borrowers may fail to repay on time or in full due to weakened repayment capacity. Additionally, macroeconomic fluctuations may affect the stability of consumer finance assets, leading to an increase in the bad debt ratio and increasing the pressure to write off non-performing loans.

Intensified market competition: As the consumer credit market growth slows down, internet consumer finance platforms face more intense market competition. Bank consumer credit products, with lower interest rates and higher market share, put the internet platforms under competitive pressure.

Analysts

ZHAO Ran

Chief Analyst of Non-Bank Financials and Market Outlook Research at China Securities Research Department . Master's degree in Applied Statistics from the University of Science and Technology of China. Formerly served as a financial engineering analyst at China Securities, specializing in asset allocation and FOF research; member of the team ranked 2nd in Wind's Financial Engineering Gold Analyst Awards in 2018; ranked 1st in Wind's Non-Bank Financial Analyst Awards in 2020 and 2021; ranked 1st in Sina's Gold Kirin Awards for Emerging Non-Bank Financial Analysts in 2020 and 2021. Currently, the focus is on research in the non-bank financial industry and financial technology sector, emphasizing key areas such as wealth management, fintech, and digital finance. Has participated multiple times in in-depth research projects for regulatory bodies and various financial institutions.

LI Zihao

Non-bank financial and fintech analyst at China Securities, holding a bachelor's degree from Nankai University and a master's from University College London. Coverage areas include consumer finance, credit technology, leasing, and financial technology.

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		Overweight	Increase by 5% - 15% relative to the benchmark index
		Neutral	Increase by -5% to -5% relative to the benchmark index
		Underweight	Decrease by 5% - 15% relative to the benchmark index
		Sell	Decrease by more than 15% relative to the benchmark index
	Industry ratings	Outperform	Increase by more than 10% compared to the benchmark index
		Neutral	Increase by -10% to -10% relative to the benchmark index
		Underperform	Decrease by more than 10% compared to the benchmark index

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Research Department, China Securities Co., Ltd.

Beijing
 18th Floor, Building 1, No. 16 Jinghui Street,
 Chaoyang District

Phone: (8610) 8513-0588
 Contact: Li Zhiyao
 Mail: lizhiyao@csc.com.cn

Shanghai
 Room 2103, South Tower, No. 528 South
 Pudong Road, Pudong New District

Phone: (8621) 6882-1600
 Contact: Weng Qifan
 Mail: wengqifan@csc.com.cn

Shenzhen
 35th Floor, Radio and Television Financial
 Center, Intersection of Third Fuzhong Road
 and First Pengcheng Road, Futian District

Phone: (86755) 8252-1369
 Contact: Cao Ying
 Mail: caoying@csc.com.cn

China Securities (International)
 Hong Kong
 18th Floor, Two Exchange Square, Central

Phone: (852) 3465-5600
 Contact: Liu Honglin
 Email: charleneliu@csci.hk