

CCXAP assigns first-time long-term credit rating of A_g- to Zhongyuan Asset Management Co., Ltd, with stable outlook

Hong Kong, 30 June 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time A_g- long-term credit rating to Zhongyuan Asset Management Co., Ltd (“Zhongyuan AMC” or the “Company”), with stable outlook.

The A_g- long-term credit rating of Zhongyuan AMC is underpinned by the Company’s (1) strong franchise and local advantage as the largest local AMC in Henan Province; (2) sufficient capital adequacy on the back of capital injection from the local government; (3) good access to funding; and (4) solid government support from the Henan Provincial Government.

However, the rating is constrained by the Company’s (1) moderate asset quality with high operating and concentration risk; (2) management challenges from higher regulatory requirements; (3) relatively weak profitability; and (4) modest liquidity profile.

Corporate Profile

Zhongyuan AMC was established in August 2015 as the first local distressed AMC in Henan Province and the only local AMC under the direct management of the department of finance of Henan Province. It is one of the key provincial financial platforms of Henan Province and undertakes the strategic role of resolving regional financial risk and promoting the upgrade of local industries in the province. The Finance Department of Henan Province is the largest shareholder of Zhongyuan AMC, directly and indirectly holding 57% of the Company’s shares as of 31 December 2021.

Zhongyuan AMC primarily engages in the core business of distressed asset management and also expands to other businesses such as equity investment, supply chain finance, financial leasing, and other investments. As of 31 December 2021, the Company reported total assets of RMB59.5 billion and net assets of RMB15.2 billion.

Rating Rationale

Credit Strengths

Strong franchise and local advantage as the largest local AMC in Henan Province.

Zhongyuan AMC is the only local AMC under the direct management of the department of finance of Henan Province and is also the first local AMC licensed by the China Banking and Insurance Regulatory Commission (“CBIRC”) in Henan Province to engage in the batch transfer of distressed assets from financial institutions. Comparing with the big four state-owned AMCs, the Company has good understanding of local companies and collaterals, which helps better evaluate risk and make more accurate valuations on targeted investments.

Sufficient capital adequacy on the back of capital injection from the local government.

Zhongyuan AMC’s capital adequacy is sufficient supported by capital injection and its disinvestment. In December 2021, the Finance Department of Henan Province provided a



RMB4.3 billion capital injection to the Company, which has significantly enhanced its capital base. The government planned to increase its capital by another RMB700 million to RMB10 billion by the end of 2022.

Modest liquidity profile moderated by good access to funding. Zhongyuan AMC's liquidity profile was modest with reliance on wholesale funding, particularly bank borrowings to support its business, and expose the Company to interest and refinancing risk. Nevertheless, given its state-owned background, the Company has sufficient credit lines from large state-owned banks and joint-stock commercial banks as well as regional banks, which could reduce potential refinancing risk.

High likelihood of government support. We expect a high likelihood of government support from the Henan Provincial Government provided to Zhongyuan AMC in times of need, and is unlikely to change in the near to medium term. This expectation incorporates our considerations of the Company's (1) strong strategic and functional role in resolving regional financial risk and promoting local industry upgrade; (2) moderate level of importance to Henan's financial system; and (3) close operational linkage with the local government.

Credit Challenges

Moderate asset quality with high operating and concentration risk. Most of Zhongyuan AMC's distressed assets are in Henan Province and mainly concentrated in the sectors of manufacturing, wholesale and retail, and real estate, which have been subject to the disruptions of the COVID-19 pandemic and the slowdown in China's economic growth. While Zhongyuan AMC could find more business opportunities from higher distressed asset formation during economic downturn, it is likely to face considerable asset strains and more difficulties in resolving assets when the weak economic condition sustains.

Management challenges from business diversification and higher regulatory requirements. As a licensed institution, Zhongyuan AMC is subject to increasing monitoring from the authorities and it has to comply with higher level of regulatory requirement. The Company's business diversification to other financial businesses such as factoring, leasing and investment banking also increased its management challenges, which requires expertise in the specific sectors and better risk management system.

Relatively weak profitability constrained by impairments and economic slowdown. The distressed asset management business represented a material source of revenue for Zhongyuan AMC. The interest and fee income from this business dropped significantly from RMB1.6 billion in 2019 to RMB681.9 million in 2021. The Company's ratio of pre-tax net income to assets and return on equity were low of 0.2% and 1.5% on average from 2019 to 2021, respectively.

Rating Outlook

The stable outlook on Zhongyuan AMC's rating reflects our expectation that the willingness and ability of the local government to provide support is unlikely to change, and that the



Company will sustain its leading market position and solid financial profile in the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of receiving government support increases such as greater strategic importance or more policy roles in Henan Province; and (2) the Company's standalone credit profile improves, such as improved profitability and asset quality, with stable asset growth and long track record.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of receiving government support decreases such as significantly decreasing ownership from the Finance Department of Henan Province; or (2) the Company's standalone credit profile worsens, such as deteriorated capital adequacy, sharp decrease in asset quality, or unexpected decline in liquidity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [Finance Companies \(April 2019\)](#).

Regulatory Disclosures

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http://www.ccxap.com/en/rating_services/category/6/

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