

CCXAP assigns first-time long-term credit rating of A_g- to Far East Horizon Limited, with stable outlook.

Hong Kong, 16 January 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of A_g- to Far East Horizon Limited (“FE Horizon” or the “Company”), with stable outlook.

The A_g- long-term credit rating of FE Horizon is underpinned by the Company’s (1) leading market position as one of the largest financial leasing companies in China by total assets; (2) sound profitability, with steady income growth driven by the expansion of industrial operation services; and (3) strong access to funding and good asset-liability management.

However, the rating is constrained by (1) decelerating industry growth due to tightening regulations; (2) lingering pandemic and increasing economic downward pressure that challenged asset quality; and (3) the Company’s high industry concentration of leasing portfolio.

We also consider the Company’s good operating track record in China and the moderate support from its key shareholder, namely, Sinochem Holdings Corporation Ltd. (“Sinochem Holdings”).

Corporate Profile

FE Horizon was founded in 1991 and has been listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock Code: 3360.HK). The Company is one of leading financial leasing companies in China that provides all-round financial services to wide-ranging customers. It adopts a “finance + industry” business model that engages in financial leasing business and industrial operations. FE Horizon has specialized in providing customised financing solutions through equipment-based financial leasing and providing other services such as commercial factoring and related consultations. As of 30 June 2022, the Company had a total asset of RMB358.5 billion and a net asset of RMB49.5 billion. It had a net interest-earning asset of RMB284.1 billion as of the same date.

Rating Rationale

Credit Strengths

Leading market position as one of the largest financial leasing companies in China. FE Horizon has a strong market position in China’s financial leasing sector with reputable brand and long-standing client relationships. It ranks top five financial leasing companies in China by total assets and total equities (including those bank-supported leasing companies). As of 30 June 2022, the Company has a total asset of RMB358.5 billion and net interest-earning assets of RMB284.1 billion, growing from RMB260.6 billion and RMB203.1 billion at end-2019. The Company’s distinctive industrial understanding, supported by its “finance + industry” business strategy and industry expertise, also enables it to provide customized and integrated financial services to its clients.



Sound profitability, with steady income growth driven by the expansion of industrial operation services. From 2019 to 2021, FE Horizon's total revenue increased from RMB26.9 billion to RMB33.8 billion, with a compound annual growth rate ("CAGR") of 12.0%; while its revenue from industrial operation services increased from RMB6.5 billion to RMB11.4 billion over the same period, with a CAGR of 32.4%. FE Horizon has demonstrated a track record of stable profitability while growing scale. Its net profit increased from RMB4.8 billion in 2019 to RMB6.2 billion in 2021, with a CAGR of 13.6%. It had an average pre-tax net income/asset ratio of 2.8% and an average return on equity of 12.1% over the past three years.

Strong access to funding. FE Horizon has diversified funding channels with its listed status. It has low-cost and relatively stable borrowings from diversified banks and financial institutions. It also has strong ability to raise fund in onshore and offshore debt capital market. For example, the Company issued zero-coupon USD250 million convertible bonds in June 2021, with a low cost of funding. FE Horizon is very active in debt capital markets with outstanding bonds (including perpetual bonds) of approximately RMB119.4 billion as of 30 June 2022. It also has a good track record in accessing innovative financial products such as ABS and ABN.

Moderate support from the key shareholder. FE Horizon is one of the core investments of Sinochem Holdings, who is the key shareholder and indirectly owns 21.3% of FE Horizon's equity interest through its subsidiary. Sinochem Holdings is one of the four state-owned oil companies in China and is wholly owned by State Council SASAC. It plays a very high strategic role in the national development, particularly in energy, agriculture and chemicals. We have considered the Company's moderate support from its shareholder. For example, Sinochem Holdings has provided liquidity facilities through its financial subsidiary to FE Horizon.

Credit Challenges

Decelerating industry growth due to tightening regulations. China's ongoing deleveraging campaign since 2016 and tightened scrutiny on leasing companies have led to a slowdown in the industry's growth. The decelerating market growth will also intensify market competition and weaken the pricing margins of finance companies, thereby restricting FE Horizon's business expansion. The regulatory change also requires a higher standard of management and internal control for financial leasing companies and increase their management pressure.

Asset quality is challenged by lingering pandemic and increasing economic downward pressure. The lingering pandemic and the uncertainty of economic recovery of China which could bring operating and financial challenges to the Company's clients. In addition, FE Horizon also increases its inclusive finance exposure, targeted small and midsize customers, which normally has higher risk level compared to normal corporate clients. FE Horizon's inclusive finance investments is unseasoned with short operating history and the risk control practices will remain to be tested.

Rating Outlook

The stable outlook on FE Horizon's rating reflects our expectation that the Company will maintain its strong business position, risk management ability and liquidity over the next 12 to



18 months. We also expect that the Company will retain its strategically important role in Sinochem Holdings.

What could upgrade the rating?

The rating could be upgraded if the Company (1) obtains stronger support from its shareholders; (2) improves its regional and industrial diversifications; and (3) improves its asset quality and the sustainability of its profitability.

What could downgrade the rating?

The rating could be downgraded if the Company (1) demonstrates a material decline in asset quality, such as surging problem assets and impairment losses; (2) shows a sharp decrease in profitability; or (3) has severely weakened asset-liability management and liquidity position.

Rating Methodology

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

Regulatory Disclosures

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