CCXAP assigns first-time long-term credit rating of AA_g- to China Bond Insurance Co., Ltd., with stable outlook.

Hong Kong, 14 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time AA_g- long-term credit rating to China Bond Insurance Co., Ltd. ("CBIC" or the "Company"), with stable outlook.

The AA_g- long-term credit rating of CBIC is underpinned by the Company's (1) strong market position as the largest credit enhancement company and bond guarantor in China; (2) solid asset quality with a low level of historical claims; and (3) sufficient capital adequacy and good access to capital.

However, the rating is constrained by the Company's (1) profitability under challenges of higher loss provision; and (2) concentrated guarantee portfolio; and (3) moderate level of internal liquid resources.

The rating also incorporates our expectation that the Company has a high likelihood of government support given its (1) indirect ownership by the Chinese government through several large central SOEs and operation under the guidance of the National Association of Financial Market Institutional Investors ("NAFMII") and the People's Bank of China ("PBOC"); (2) strong policy role in the development of China's capital market, particularly in resolving the financing needs of SMEs and innovating financing products; and (3) reputation risk to the Chinese government if failure.

Corporate Profile

Headquartered in Beijing, CBIC was founded under the guidance of the People's Bank of China, with the policy role in facilitating the development of domestic direct finance and the finance of small-to-medium enterprises (SMEs). It was jointly established by the NAFMII and several large state-owned enterprises (SOEs), including China National Petroleum Corporation, State Grid Yingda International Holdings Group Co., Ltd., Sinochem Corporation, Beijing State-owned Capital Operation and Management Co., Ltd., Shougang Group Co., Ltd. and Bank of China Investment and Asset Management Co., Ltd. It is one of the largest credit enhancement companies and bond guarantors in China.

CBIC mainly provides traditional credit enhancement services, particularly standardized products, and gradually extends to other innovating financing products with wider business coverage. Its credit enhancement services not only cover traditional products such as Medium-term Notes (MTN), Short-term Commercial Paper (SCP), Enterprise Bonds, Financial Bonds, but also more complex derivative products including Trust Plans, Asset-backed Security (ABS), Credit Risk Mitigation Agreement (CRMA) and Credit Risk Mitigation Warrant (CRMW).

Rating Rationale

Credit Strengths

Strong market position as the largest credit enhancement company and bond guarantor in China. CBIC is one of the largest credit enhancement companies and bond guarantors in China. It has enjoyed the ongoing growth of China's bond market in its traditional business in standardized bond products and has extended the coverage to other innovative products such as ABS, CRMA, and CRMW. CBIC has demonstrated fast business development and good market recognition. It has provided guarantee services in China over a decade and handled 470 projects with a total par amount of more than RMB337.8 billion as of 30 September 2022.

Solid asset quality with a low level of historical claims. CBIC has solid asset quality with a low level of historical claims, a simple product structure, and a high-quality client base. Compared with its top-tier peers, the Company had a low accumulated claim ratio of 0.26% as of 30 September 2022. It also had a moderate recovery rate on claims of approximately 50% in aggregate. The Company's guarantee portfolio is mainly made up of guarantees on traditional products in the domestic market such as MTN, SCP, CP, and Enterprise Bonds, most of which are simple and have higher information transparency that lowers the risk of misevaluating them.

Sufficient capital adequacy and good access to capital. With strong capital raising ability and good internal capital accumulation, CBIC's capital profile is relatively strong. These provide the Company with a healthy loss-absorption buffer against unexpected market volatilities. The outstanding guarantees to equity ratio reduced from 9.4x at end-2019 to 7.2x at end-2022Q3. CBIC also demonstrated good funding ability which supports its business development as well as enhances its risk resistance capability.

High likelihood to receive government support when necessary. CBIC is likely to receive support from the Chinese Government when necessary as it (1) is indirectly owned and controlled by the Chinese government through several large central SOEs and is under the close guidance from the NAFMII and the PBOC; (2) has a relatively high strategic importance given its public policy role in resolving the financing needs for SMEs and the development of domestic direct financing; and (3) has significant market position in China's credit enhancement sector and the failure of the Company will cause material impact on capital market and concerns over the government's reputation.

Credit Challenges

Profitability under challenges of higher loss provision. The ongoing economic disruptions of COVID-19 increased provision pressure for guarantee business and the volatility of capital markets caused diminished investment income. They offset the positive effect of widening credit spreads in the broad market and resulted in lower profitability for CBIC in recent years. For example, CBIC's provisions for credit enhancement business increased significantly from RMB124 million in 2019 to RMB612 million in 2020, resulting in a lower ratio ROE of 4.7% in 2020.

Concentrated guarantee portfolio. CBIC's asset quality is constrained by its concentrated portfolio because the Company tends to participate in large construction projects that have great funding needs. The construction sector, affordable housing and urban renewal projects represented more than 60% of outstanding guarantees of the Company. CBIC is also exposed to the single client risk that the largest client guarantee accounted for around 18% of its core capital and the top ten client guarantees accounted for 145% as of 30 September 2022.

Moderate level of internal liquid resources. The liquidity risk of CBIC mainly comes from the mismatch between its on-balance sheet assets and off-balance sheet contingent liabilities. Liquid resources offer buffers to a financial guarantor to meet its unexpected liabilities. We consider CBIC's liquid resources were fair with moderate liquidity ratio (measured by high liquid assets/total assets) of approximately 9.2% as of 31 December 2021.

Rating Outlook

The stable outlook on CBIC's rating reflects our expectation that the willingness and ability of the Chinese government to provide support is unlikely to change. We also expect the Company to 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) there are signs that the Chinese Government is strengthening support, including capital support, as the Company undertakes higher policy roles or greater strategic importance; and (2) the Company's institution profile has significantly strengthened such as improved quality of guarantee portfolio, better coverage in potential claims on guarantees and larger high-liquid asset holdings.

What could downgrade the rating?

The rating could be downgraded if (1) there are signs that the Chinese Government is weakening support because the Company undertakes more non-core activities, which weakens its strategic importance; or (2) the Company's institution profile deteriorates significantly, such as hindered profitability, sharp decrease in asset quality, or unexpected decline in liquidity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Rating Methodology for Financial Guarantors (January 2022).

Regulatory Disclosures

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