

CCXAP assigns first time long-term credit rating of A_g- to Tianfeng Securities Co., Ltd., with stable outlook.

Hong Kong, 24 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of A_g- to Tianfeng Securities Co., Ltd. (“TFS” or the “Company”), with stable outlook.

The A_g- long-term credit rating of TFS is underpinned by (1) good operating environment in China, where the capital market is mature, highly efficient and stable; (2) the Company’s established franchise in China’s securities market; and (3) increasing business and financial support from TFS’s parent and the Hubei Provincial Government.

However, the rating is constrained by the Company’s (1) profitability that is subject to investment risk from the proprietary trading segment; (2) moderate but improving liquidity and funding position; and (3) moderately high risk appetite as compared with other peers.

The rating also reflects TFS’s ownership and control by the Hubei Provincial Government through Hubei Hongtai Group Co., Ltd. (“Hongtai Group”). We expect the Company will receive solid support from the Hubei Provincial Government through Hongtai Group when needed, given its high importance to Hongtai Group and reputational risk to the local government. We see that relationship and operation linkage between Hongtai Group and TFS is becoming tighter.

Corporate Profile

Founded in March 2000 and headquartered in Wuhan, TFS is a fast-growing medium-sized securities firm in Hubei Province. The Company was listed on the Shanghai Stock Exchange in October 2018 (Stock code: 601162.SH). Its principal businesses include brokerage, investment banking, asset management, research, private equity investment and trading. It aims to provide clients with one-stop financial services through comprehensive business coverage and diversified product offerings.

In February 2023, Hongtai Group received 5.99% of the shares of TFS from Hubei United Development Investment Group Co., Ltd. and became the controlling shareholder of TFS. The Hubei Provincial Government is the ultimate owner, holding TFS indirectly through multiple state-owned enterprises, including Hongtai Group. As of 15 February 2023, Hongtai Group and the party acting in concert, namely Wuhan Trading Group Co., Ltd. (“Wuhan Trading”), held 22.62% of the shares of TFS in aggregate. Hongtai Group was the largest shareholder of TFS, directly holding 13.84% of the shares.

Rating Rationale

Credit Strengths

Good operating environment in China, where the capital market is mature, highly efficient and stable. TFS is domiciled in China and derives most of its revenue from China. The Chinese capital market has experienced rapid growth over the past decade and has



become the second largest capital market in the world in terms of outstanding debt securities and equity market capitalization, which has promoted the sustainable development of China's financial intermediaries, especially securities firms.

Established franchise in China's securities market. TFS is a securities firm with a well-established product portfolio covering securities brokerage, investment banking, asset management, securities trading, and private equity. Diversified service and product offerings enable it to achieve synergies across different business lines and encourage it to develop Tianfeng Brand. According to the Securities Association of China, the Company ranked 25th in terms of total assets and net assets in 2021.

High likelihood of receiving parental and government support when needed. We expect a high level of support for TFS from the Hubei Provincial Government through Hongtai Group when needed. This is based on the high strategic importance of TFS to Hongtai Group and the increasing ties between the two parties. TFS is the major securities firm under Hongtai Group's development blueprint and has a significant strategic position in regional financial development. If Hongtai Group fails to support TFS, it would bring reputational risks to the Hubei Provincial Government. Hongtai Group has a controlling share in TFS, with the stakes from other single shareholders all below 5%. In May 2023, Hongtai Group intended to subscribe to a private placement of TFS for approximately 1.5 billion shares (representing 14.7% shares of TFS). After the private placement is completed, Hongtai Group will directly hold 26.54% of the shares of TFS, and jointly hold 34.03% of the shares with Wuhan Trading.

Credit Challenges

Profitability that is subject to investment risk. The Company's financial performance is to a certain extent correlated with the change of China's capital market due to its exposure to proprietary trading business. The Company had a drop in revenue from proprietary trading business to RMB382 million in 2022, representing a YoY decrease of more than 80%. TFS's return on assets, measured by net profit over average assets, turned negative in 2022, due to the higher asset impairment costs from its proprietary trading business segment, compared to 0.8% in 2021 and 1.1% in 2020.

Moderate but improving liquidity and funding position. The Company reported a liquidity ratio of 150.5% and a funding ratio of 134.0% as of 31 December 2022, increasing from that of 121.4% and 105.4%, respectively, at end-2020. TFS's liquidity is undermined by its large exposure to wholesales funding particularly in the bond market. Its refinancing may face volatility when market is under stress. The Company's short-term funding mainly consisted of financial asset repurchases and short-term debts from other financial institutions that are highly market sensitive.

Moderately high risk appetite as compared with other peers. TFS's risk appetite is moderately high as compared with other peers. The Company reported a risk asset to total asset ratio of 33.2% as of 31 December 2022. Risk assets are mainly measured by the financial assets reported as level 2 or level 3 in the hierarchy, which values are determined based on limited observable inputs or subjective financial models. TFS's investments in illiquid securities

entail larger tail risk in extreme market conditions and bring challenges to its risk management ability.

Rating Outlook

The stable outlook on TFS's rating reflects our expectation that the Company will maintain a strong market position in China's securities market. We also expect it to receive more support from its parent and the government in the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the willingness and ability of Hongtai Group and the Hubei Provincial Government to support the Company strengthen; (2) the Company's business profile improves and becomes resilient across market cycles with a stronger market position; and (3) the Company's credit metrics improve, such as pre-tax margin and risk to total assets ratio, on a sustained basis.

What could downgrade the rating?

The rating could be downgraded if (1) the willingness and ability of Hongtai Group and the Hubei Provincial Government to support the Company weaken; (2) the macroeconomics or capital market environment deteriorates significantly in China that harms the Company's profitability and asset quality; or (3) financial position weakens materially because of a sizable increase in leverage or eroded liquidity and funding.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [Securities Industry \(August 2017\)](#).

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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Vincent Tong

Assistant Director of Credit Ratings

+852-2860 7125

vincent_tong@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656