

CCXAP affirms Zhongyuan Asset Management Co., Ltd's long-term credit rating at A_g-, with stable outlook

Hong Kong, 7 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Zhongyuan Asset Management Co., Ltd (“Zhongyuan AMC” or the “Company”) at A_g-, with stable outlook. At the same time, CCXAP has affirmed Zhongyuan AMC’s A_g- senior unsecured debt rating.

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; and (3) good access to funding.

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

The rating also reflects our expectation of a high likelihood of support from the Henan Provincial Government, given Zhongyuan AMC’s (1) major ownership by the Henan Provincial Government; (2) relatively high strategic importance in the regional systemic financial stability; and (3) solid supporting track record from the government including capital injections

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 Finance Department 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 Company was jointly established by a number of state-owned and privately-owned companies, with a solid capital base. As of 31 December 2022, the Finance Department of Henan Province was the largest shareholder of Zhongyuan AMC that directly and indirectly held 78.47% of the Company’s shares.

Zhongyuan AMC primarily engages in the core business of distressed asset management and gradually expands to other businesses such as equity investment, supply chain finance, financial leasing, and other investments. As of 31 December 2022, the Company reported total assets of RMB70.7 billion and net assets of RMB16.2 billion.

Rating Rationale

Credit Strengths

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. This expectation incorporates our considerations of the Company’s (1) major ownership by the Henan Provincial Government; (2) strong strategic and functional role in resolving regional



financial risk and promoting local industry upgrade; and (3) solid supporting track record from the government including capital injections.

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

Zhongyuan AMC is the only local AMC under the direct management of the Finance Department 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 a 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 which is largely supported by the capital injection from its largest shareholder. 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 also increased its capital by another RMB700 million to RMB10 billion by the end of 2022. The Company reported a capital adequacy ratio of 22.9% as of end-2022.

Good access to funding. Zhongyuan AMC’s liquidity profile was modest with reliance on wholesale funding, particularly bank borrowings, to support its business. Nevertheless, given its state-owned background, the Company maintains a good relationship with diversified domestic banks which could reduce potential refinancing risk. It has sufficient credit lines from various domestic banks, such as China Development Bank, Bank of China, and Zhongyuan Bank.

Credit Challenges

Moderate asset quality with high operating and concentration risk. Most of Zhongyuan AMC’s distressed assets are in Henan Province and concentrated mainly 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.

Relatively weak profitability constrained by impairments and economic slowdown. Zhongyuan AMC’s profitability remains relatively weak as seen by its low ratio of pre-tax income to assets and return on equity. From 2020 to 2022, the average of the Company’s return on assets and return on equity were low at 0.3% and 1.6%, 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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