中誠信亞太 CCXAP

CCXAP assigns first-time long-term credit rating of BBB_g to Guangzhou Nanyue Fund Management Co., Ltd., with stable outlook.

Hong Kong, 13 October 2023– China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a long-term credit rating of BBB_g to Guangzhou Nanyue Fund Management Co., Ltd. ("GNFM" or the "Company"), with stable outlook.

The BBB_g long-term credit rating of Guangzhou Nanyue Fund Management Co., Ltd. ("GNFM" or the "Company") is underpinned by the Company's (1) strong market position in private equity fund management of Zengcheng District; (2) stable development momentum in financial service businesses, with manageable business risk; and (3) low debt burden and sufficient liquidity. However, the rating is constrained by the Company's limited operating scale, with profitability vulnerable to macroeconomic conditions.

The rating also reflects our expectation of high likelihood of support from the Zengcheng District Government, given GNFM's (1) major ownership by the Zengcheng District Government and minor ownership by the Guangzhou Municipal Government; (2) relatively high strategic importance in the regional economic development; and (3) solid supporting track record from the government including capital injections.

Corporate Profile

Founded in November 2014 with a registered capital of RMB460 million, GNFM is a state-owned innovative fund management platform jointly established by Guangzhou Municipal Government and Zengcheng District Government with the aim to increase the leverage effect of government funds, activate social capital investment, promote industrial transformation, and promote economic development. GNFM primarily engages in private equity and venture capital fund management, and gradually expands to other financial services such as non-performing assets management, financial guarantee, and investment consultation. As of 30 June 2023, the State-owned Assets Supervision and Administration Bureau of Zengcheng District of Guangzhou City directly held 71.74% of the Company's shares and was its ultimate controlling shareholder.

Rating Considerations

Strong market position in private equity fund management of Zengcheng District. Due to policy support and transformation of saving opinions, fund management industry experienced high-quality development over the past years. Guangdong Province has ranked first in economic development over the past 30 years, which provides excellent operating environment for fund management industry. Guangdong Province has 863 listed companies with RMB13.7 trillion in market value as of 14 September 2023. As of 31 December 2022, Guangdong Province has 3027 private equity fund managers registered with the Asset Management Association of China. There were 11,400 funds under management and RMB2.4 trillion asset under management ("AUM"). Served as capital city and economic hub of Guangdong Province, Guangzhou City has advanced fund management industry and ranked second in terms of AUM in the province.

Stable development momentum in financial service businesses, with manageable business risk. GNFM also engages in non-performing assets management business, covering asset acquisition and asset disposal. The Company has resolved non-performing debt of RMB3.0 billion for the local government and state-owned enterprises, and has activated idle land assets with area of 230,000 square meters. As of 30 June 2023, the Company has acquired 13 debt and asset packages, with total amount of RMB213 million. This business has provided supplemental profit to the Company, with investment profit of RMB 17.3 million in 2022.

Limited income scale, with profitability vulnerable to macroeconomic conditions. GNFM's fund management business had geographic concentration mainly in Zengcheng District and Guangzhou City. The Company's operating size and income scale is not large. In 2022, it recoded total revenue of RMB53.5 million. Besides, affected by COVID-19 and fluctuation in some industries, the revenue dropped from RMB80.3 million in 2020 to RMB 53.5 million in 2022. Due to the government policy support and the Company's solid market position, we believe GNFM's business scale will grow gradually in the next few years.

Low debt burden and sufficient liquidity. Due to its light-asset operation model, GNFM has low debt burden, which is positive to its credit rating. In 2022, the Company's debt/EBITDA ratio was as low as 0.5x, indicating good debt servicing capability. Without large financing needs, we believe that the Company's debt burden will remain at a low level for the next 12 to 18 months.

High likelihood of government support from the Zengcheng District Government when needed. We expect a high likelihood of government support from the Zengcheng District Government provided to GNFM in times of need. This expectation incorporates our considerations of the Company's (1) major ownership by the Zengcheng District Government and minor ownership by the Guangzhou Municipal Government; (2) relatively high strategic importance in the regional economic development; and (3) solid supporting track record from the government including capital injections.

Rating Outlook

The stable outlook on GNFM'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 solid market position and 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 Zengcheng District; 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 Zengcheng District; 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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