

Credit Opinion

13 October 2023

Ratings

| | |
|-------------------------|-----------------------|
| Category | Financial Institution |
| Domicile | China |
| Rating Type | Solicited Rating |
| Long-Term Credit Rating | BBB _g |
| Outlook | Stable |

Analyst Contacts

Peter Chong +852-2860 7124
Assistant Director of Credit Ratings
peter_chong@ccxap.com

Simon Chen +852-2860 7138
Assistant Credit Analyst
simon_chen@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

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

Client Services

Hong Kong +852-2860 7111

Guangzhou Nanyue Fund Management Co., Ltd.

Initial credit rating report

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

Summary

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.

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.

Rating Drivers

- High likelihood of government support from the Zengcheng District Government when needed
- Strong market position in private equity fund management of Zengcheng District
- Stable development momentum in financial service businesses, with manageable business risk
- Low debt burden and sufficient liquidity
- Limited income scale, with profitability vulnerable to macroeconomic conditions

Rating Sensitivities

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.

Key Indicators

| | 2020FY | 2021FY | 2022FY |
|------------------------------|---------|---------|---------|
| Total Assets (RMB million) | 1,183.4 | 1,007.1 | 1,038.9 |
| Total Equity (RMB million) | 752.6 | 817.7 | 873.6 |
| Total Revenue (RMB million) | 80.3 | 76.0 | 53.5 |
| Net Profits (RMB million) | 27.9 | 39.6 | 18.9 |
| Return on Average Equity (%) | 3.8 | 5.0 | 2.2 |
| Debt/EBITDA (X) | 1.9 | 0.3 | 0.5 |
| FFO/Total Debt (%) | 12.9 | -88.5 | -74.7 |

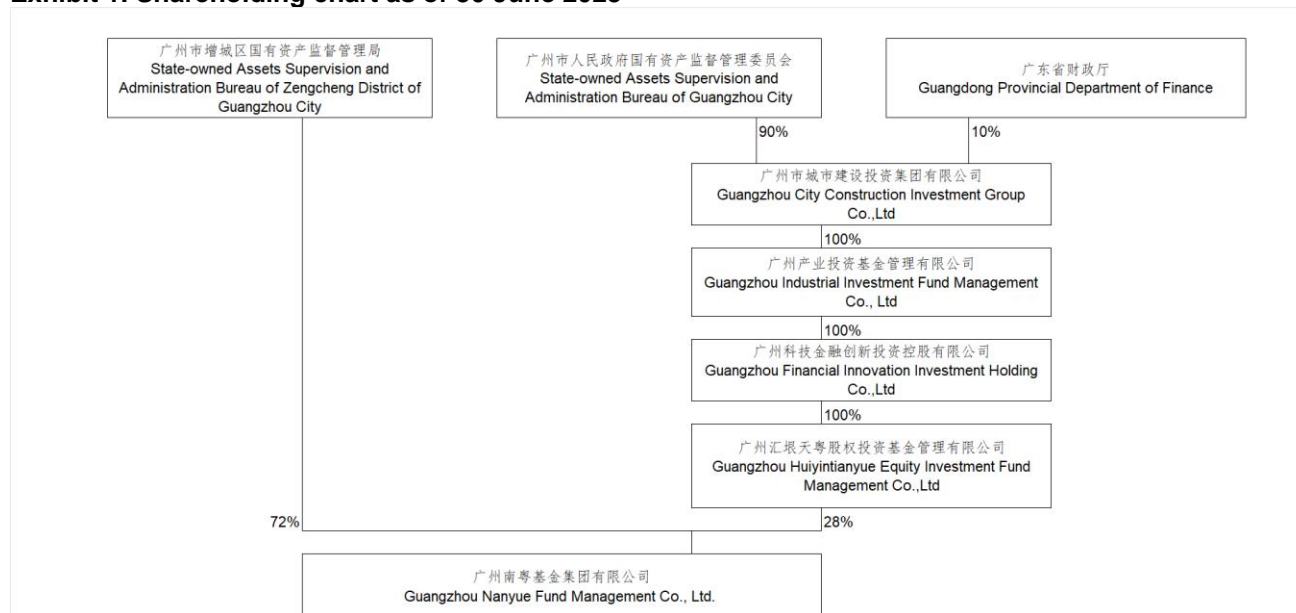
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

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.

Exhibit 1. Shareholding chart as of 30 June 2023



Source: Company information, CCXAP research

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.

As the sole state-owned innovative fund management platform in Zengcheng District, Guangzhou City, GNFM has strong market position and unique advantages in private equity fund management of the region. The Company has successively established and managed more than 80 funds, including emerging industry funds, equity investment funds, urban development funds, and government guidance funds, with cumulative paid-in capital of RMB25.3 billion. Among those funds, 14 funds have already exited, with total amount of RMB15.8 billion. As of 30 June 2023, GNFM had 70 funds under management, with AUM of RMB9.5 billion.

GNFM’s investment mainly focuses on hi-tech sector, such as new energy, new materials, semiconductors (including new displays) and bio-pharmaceutical. Besides, GNFM also focuses on high-quality pre-IPO projects. The Company sticks to the concept of value investment and focuses on industry leader with growth potential. Among all the invested companies, 6 enterprises have been listed and 6 enterprises plan to be listed. However, the management income fluctuates with AUM scale and investment performance. In 2022, the revenue from fund management amounted to RMB20.2 million, as compared with RMB16.8 million in 2021 and RMB29.0 million in 2020.

Guangzhou Municipal Government plans to establish Guangzhou East Hub Development Investment Fund, with total fund scale of RMB10 billion. The fund will invest in key industrial projects and the related infrastructure construction projects within Guangzhou East Center. As an important fund manager of Zengcheng District, GNFM is expected to engage in this fund. Given its strategic important in local industrial and economic development, we expect the Company can maintain its solid market position in the foreseeable future.

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.

The Company engaged in guarantee business in 2020, providing financing guarantees to small and medium enterprises in Zengcheng District to solve their financing issues. This business can be divided into financing guarantee and non-financing guarantee. Non-financing guarantee business mainly involves providing letter of guarantee to engineering construction companies and supply chain companies. As of 30 June 2023, the Company's total financing guaranteed amount was RMB174.9 million and total non-financing guaranteed amount was RMB2.2 billion, with no guarantee compensation. With rising guaranteed amount, the guarantee income also increases. The revenue from guarantee business significantly increased from RMB2.0 million in 2021 to RMB6.0 million in 2022. As the guarantee period for financing guarantees usually does not exceed 3 years and the amount of one single guarantee does not exceed RMB28 million, we expect the contingent liabilities risk is manageable.

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.

In addition, the Company's profitability is easily influenced by macroeconomic situation and local industrial development. In 2022, its return on average equity was 2.2%, as compared with 5.0% in 2021 and 3.8% in 2020.

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.

GNFM has sufficient liquidity to support its daily operation and debt and interest repayment. As of 30 June 2023, the Company had cash reserves of RMB235 million. Although the Company has no available credit facilities, it plans to get access to offshore funding, broadening its financing channels. In addition, the Company's investment needs for the next one year are limited and it does not have outstanding short-term debt.

External Support

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.

Serving as capital of Guangdong Province, Guangzhou City has very strong capacity to support local companies. As one of the fast-growing area of Guangzhou City, GRP of Zengcheng District increased from RMB 106.3 billion to RMB 132.5 billion in 2022. GNFM has a very important position among local SOEs in the Zengcheng District, ranking after city construction and industrial investment SOEs. As the first established fund management company in the region, GNFM has both importance in promoting industrial transformation and boosting social capital investment in order to accelerate the regional economic development.

The Company has close relationship with the local government and has solid track record of receiving support from local government. As the major shareholder of GNFM, the Zengcheng District government appointed most of the board members, with strong supervision on the Company's material decisions. Furthermore, the Zengcheng District Government has increased the Company's capital base by injecting cash of RMB200 million in 2020. We expect the local government's willingness to support the Company is high, which is unlikely to change in the near to medium term.

Rating Methodology

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

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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