

## Credit Opinion

30 November 2023

### Ratings

|                              |                       |
|------------------------------|-----------------------|
| Senior Unsecured Debt Rating | A <sub>g</sub> -      |
| Long-Term Credit Rating      | A <sub>g</sub> -      |
| Outlook                      | Stable                |
| Category                     | Financial Institution |
| Domicile                     | China                 |
| Rating Type                  | Solicited Rating      |

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## Suzhou Urban Investment Capital Holding Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms the long-term credit rating of Suzhou Urban Investment Capital Holding Co., Ltd. at A<sub>g</sub>-, with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Suzhou Urban Investment Capital Holding Co., Ltd. (“SUIC” or the “Company”) is underpinned by the Company’s (1) fast-growing business scale aligned with the development strategy of its parent, Suzhou Urban Construction & Investment Development (Group) Co., Ltd. (“SCID”); and (2) good asset quality with relatively low risk appetite.

However, the rating is constrained by the Company’s (1) concentrated portfolio in Suzhou City and Jiangsu Province; (2) unproven track record in equity and fund investments with uncertain return; and (3) moderate profitability with intensive market competition.

The rating also reflects the high likelihood of support from SCID, which is based on the Company’s (1) direct and full ownership by SCID; (2) strong strategic role as the key financial business arm of SCID; and (3) close business and financial linkages with SCID. We believe that SCID has a strong capacity to provide support given its full ownership by the Suzhou Municipal Government and good track record of receiving government support based on its strategic roles. SCID is one of the state-owned enterprises with a large asset scale of over RMB100 billion in Suzhou City.

The stable outlook on SUIC’s rating reflects our expectation that the Company will maintain its strategic role in the financial business under SCID and will retain its financial and operational strength over the next 12 to 18 months.

## Rating Drivers

- High likelihood of shareholder support as the financial business arm of SCID
- Fast-growing business scale aligned with SCID's development strategy
- Good asset quality with relatively low risk appetite
- Unproven track record in equity and fund investments with uncertain return
- Moderate profitability with intensive market competition
- Low-cost and stable funding provided by SCID

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of shareholder support increases for SUIC such as stronger strategic position or legal and operational linkages with its parent company; or (2) the Company's business scale, asset quality and profitability materially improve.

### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of shareholder support decreases for SUIC such as weakening strategic position or legal and operational linkages with its parent company; (2) there is a material decline in the Company's asset quality, as seen by surging problem assets or impairment losses; or (3) the Company's profitability decreases significantly.

## Key Indicators

|                                       | 2020FY | 2021FY | 2022FY |
|---------------------------------------|--------|--------|--------|
| Total Assets (RMB billion)            | 5.6    | 7.3    | 8.3    |
| Total Equity (RMB billion)            | 2.0    | 2.2    | 2.6    |
| Total Revenue (RMB million)           | 327.6  | 350.3  | 422.2  |
| Net Profits (RMB million)             | 169.3  | 142.3  | 216.1  |
| Pre-Tax Net Income/Average Assets (%) | 4.2    | 2.9    | 3.6    |
| Return on Equity (%)                  | 8.8    | 6.9    | 9.1    |
| Realizable Assets/Short-Term Debt (%) | 3.6    | 4.7    | 8.0    |

All ratios and figures are calculated using CCXAP's adjustments.  
Source: Company information, CCXAP research

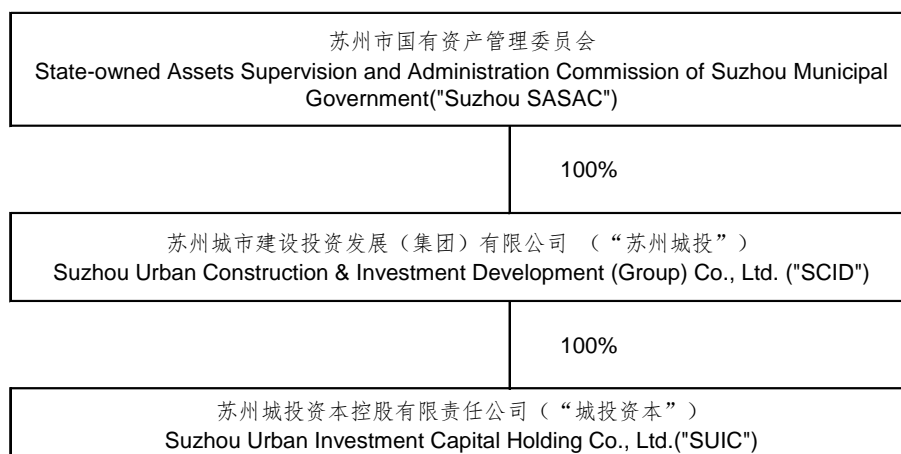
## Corporate Profile

Established in 2018, SUIC is a key financial business arm of SCID and is directly and wholly owned by SCID. SUIC is mainly responsible for the integration and management of SCID's financial business segments. It primarily engages in three different business segments namely factoring, financial leasing and investment. SUIC conducts factoring business and financial leasing business through its subsidiaries, namely, Suzhou Chengtou Commercial Factoring Co., Ltd. ("SCCF") and Wudu Financial Leasing (Tianjin) Co., Ltd. ("WDFL"), respectively. As of 30 June 2023, the Company reported total assets of RMB11.6 billion and net assets of RMB2.6 billion.

SCID is one of the major local infrastructure investment and financing companies ("LIIFCs") in Suzhou City and is wholly owned by the State-owned Assets Supervision and Administration Commission of Suzhou Municipal Government ("Suzhou SASAC"). SCID has a very strong position in local infrastructure construction and the supply of gas in Suzhou City. Its business segments include gas supply, infrastructure construction, property

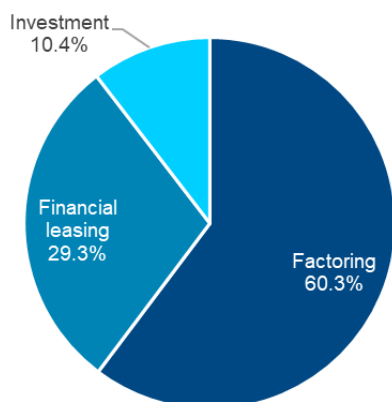
leasing, real estate development, guarding services and financial services. As of 30 June 2023, SCID reported total assets of RMB126.7 billion and net assets of RMB66.2 billion, ranking third by total assets among LIIFCs in Suzhou City.

### Exhibit 1. Shareholding and organization chart as of 30 June 2023



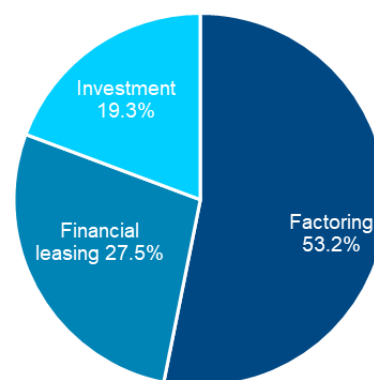
Source: Company information, CCXAP research

### Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

### Exhibit 3. Profit structure in 2022



## Rating Considerations

### Fast-growing business scale that aligned with SCID's development strategy

SUIC is a key financial business arm of SCID that follows SCID's development strategy. SUIC integrates SCID's financial business resources and mainly engages in factoring, financial leasing and investment businesses. Underpinned by SCID's strong business position in local infrastructure construction, SUIC obtains a strong client base and business network, which has grown fast in business scale. Its total assets grew from RMB5.6 billion at end-2020 to RMB11.6 billion at mid-2023.

SUIC is one of the largest state-owned factoring companies in Suzhou city. As of 30 June 2023, it has outstanding factoring assets of RMB5.5 billion, a year-on-year ("YoY") increase of 32.0%. Its targeted clients mainly consist of large engineering & construction ("E&C") companies and state-owned enterprises such as

county-level LIIFCs in Jiangsu Province. SUIC's factoring business covers various sectors, including commercial trading and logistics, industrial procurement, new energy and government procurement. SUIC also provides financial leasing services in relation to infrastructure construction projects, municipal water service and transportation service, and assets transfer among financial leasing service providers. As of 30 June 2023, it has outstanding financial leasing assets of RMB5.8 billion, increasing by 26.9% YoY. However, we believe that the Company's business growth to be moderated in the next 12 to 18 months as the recent policy of the local government encourages SUIC to focus on the local market.

### **Good asset quality but a concentrated portfolio**

SUIC has a relatively low-risk appetite and targets clients mainly in state-owned enterprises, large-size construction companies, and companies that are engaged in infrastructure construction projects. SUIC is also required by SCID to strictly control its non-performing asset level to zero and it has not incurred any non-performing asset since its establishment, as of 30 June 2023.

However, SUIC has demonstrated a high geographical and client concentration in its portfolio. As of 30 June 2023, the exposure to the top ten clients in factoring accounted for 97.9% of its total equity and the top ten clients in financial leasing service accounted for 56.6% of its total equity. The largest single client in factoring and financial leasing service represents 13.2% and 7.7% of its total equity, respectively. In addition, most of the companies are concentrated within Jiangsu Province. Around 31.3% of its factoring clients are located in Suzhou City and the remaining are located in other cities in Jiangsu Province such as Yancheng City and Taizhou City, which may expose SUIC to the concentration risk with the local economic and policy changes. We expect the Company will still focus its investment on Suzhou City and Jiangsu Province under the government's encouragement, thus the Company's business portfolio will maintain a high geographic concentration in the next 12-18 months. The accumulation of assets in Suzhou City may increase the regional concentration risks. Nevertheless, the concentration risk could be largely mitigated by SUIC's good asset quality and the strong economic fundamentals of Jiangsu Province. Jiangsu Province is one of the most developed provinces in China and has a strong industrial base. It is the second largest province by gross regional production ("GRP") in China. Meanwhile, Suzhou City is one of the wealthy cities in China and ranks the highest in terms of GRP among all prefecture-level cities in Jiangsu province in 2022.

### **Unproven track record in equity and fund investments with uncertain return**

In addition to its financial leasing and factoring businesses, SUIC participates in fund and equity investment. The portfolio of the Company consists of 2 equity projects and 6 investment funds, with an investment amount of RMB210.8 million and RMB292.0 million, respectively, as of 30 June 2023. The total value increased by around 56.0% compared with the value as of 30 June 2022, along with the increase in investment. Three of the investment funds are managed by the Company's subsidiary Suzhou Sucheng Private Equity Management Co., Ltd. ("Sucheng PE"), which are Suzhou Sucheng Chengchuang Equity Investment Limited Partnership, Suzhou Sucheng Chenghe Equity Investment Limited Partnership and Suzhou Urban Investment Medicine Valley Phase I Infrastructure Investment Limited Partnership. The Company mostly invests in sectors of new materials, advanced manufacturing and modern health. SUIC has a relatively limited investment history as most of the investments are still at the early stage of development and their investment returns are yet to be proven. The Company has exit plans for its fund and equity investments, such as IPO listing and project repurchase. However, their investment returns are uncertain and the majority of investments are expected to exit after 2025.

### **Moderate profitability with intensive market competition**

SUIC's revenue growth is supported by its ongoing business expansion and asset growth. Its revenue maintained an increasing trend and reached RMB422.2 million in 2022 with a growth rate of 20.5% from 2021. Factoring is the main source of the Company's revenue, which accounted for more than half of its revenue in 2022. In 2022, the Company reported factoring revenue of RMB279.0 million and financial leasing revenue of RMB135.5 million.

However, the profitability of SUIC is moderate with intensive market competition. Its net profit increased from RMB169.3 million in 2020 to RMB216.1 million in 2022, with a CAGR of 8.5%. The geographic concentration on Suzhou City and client concentration may further increase local market competition, thus driving down SUIC's interest spread and profitability. In addition, as the Company's clients are highly correlated to some LIIFCs, the tightened requirement to reduce finance costs from LIIFCs may cause a shrink in the profit margin. The return on average equity ratio of the Company remained at a moderate level of 9.1% in 2022.

### **Low-cost and stable funding provided by SCID**

SUIC's funding is mainly provided by shareholder lending from SCID and bank loans guaranteed by SCID. SCID provides low-cost shareholder lending to SUIC according to the Company's operating plan at the beginning of every year. The shareholder lending is considered to be a long-term and stable funding source for SUIC, with an aim to support its business development. The Company has received shareholder lending of around RMB1.9 billion from its parent company with costs of around 4%, which accounted for approximately 35.9% of its total debt as of 31 December 2022. In addition, as of the same date, all of the Company's bank loans were guaranteed by SCID, which lowered the SUIC's borrowing cost due to SCID's good credit profile. Other funding sources include issuances of asset-backed security.

SUIC's asset-liability management is moderate with a duration mismatch. On the one hand, most of the Company's factoring and leasing receivables have a tenor of around 3 years; on the other hand, the Company has a relatively high level of short-term debt. SUIC's balance-sheet liquidity position is relatively weak, given its low level of liquid assets. It has a realizable asset of RMB317.0 million, representing only 8.0% of its short-term debts as of 31 December 2022. However, we believe that the moderate liquidity position can be materially mitigated by its strong financial support from SCID and the SUCI will retain strong refinancing ability.

### **External Support**

#### **High likelihood of shareholder support as the financial business arm of SCID**

SUIC is very likely to receive support from SCID when necessary, given its (1) status as the key financial business arm of SCID; and (2) close business and financial linkages with SCID. We believe that SCID has a strong capacity to provide support given its full ownership by Suzhou SASAC and good track record of receiving government support based on its strategic roles.

As the primary operating subsidiary in financial operations, SUIC has an important position in SCID's operations. It has generated a decent profit for SCID over the past years. From 2020 to 2022, the Company's total profit accounted for 20.8%, 14.5% and 28.6% of SCID's total profit, respectively. The Company also has a good track record of receiving support from its shareholders in the form of capital injections, project offerings and referrals. In 2022, SCID provided a capital injection of RMB280 million to the Company in order to support its business development, which has also strengthened the Company's capital and financial profile. In addition, SCID provides direct funding to SUIC at a low cost and provides guarantees to SUIC's bank borrowing. We also

expect the Company to retain medium legal and operational linkages with SCID and a high likelihood of shareholder support when necessary.

### **Structural Consideration**

SUIC's senior unsecured debt rating is equal to its long-term credit rating. Despite that the majority of SUIC's claims are at the operating subsidiary level, we expect that the strong shareholder support from SCID can help mitigate structural subordination risks.

### **Rating Methodology**

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

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