Credit Opinion

12 January 2024

Ratings	
Category	Financial Institution
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB_g-
Outlook	Positive

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Shanghai Yixin Financing Lease Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Shanghai Yixin Financing Lease Co., Ltd., with positive outlook.

Summary

The BBB_g- long-term credit rating of Shanghai Yixin Financing Lease Co., Ltd. ("Yixin Financing" or the "Company") is underpinned by the Company's (1) strong franchise in China's automotive financial leasing industry with rapid growth; (2) profession in Internet automotive finance trading platform with rich product experience and efficient technical measures; (3) business and technical support provided by its shareholders in terms of channel access and risk assessment; and (4) good access to multiple funding sources.

However, the rating is constrained by the Company's (1) asset concentration in the automotive industry which is still challenged by the broad economic slowdown; (2) weak but improving profitability; and (3) credit contagion risk from its affiliates.

The positive outlook on Yixin Financing's rating reflects our expectation that the Company's credit metrics will continue improving driven by increasing revenue combined with prudent risk management over the next 12 to 18 months.

Rating Drivers

- Strong franchise in China's automotive financial leasing industry
- Asset quality which is challenged by the broad economic slowdown
- Weak but improving profitability
- Credit contagion risk from its affiliates
- Good access to multiple funding sources

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if the Company (1) significantly enlarges its capital base and net operating income scale; (2) improves its asset quality; and (3) significantly improves its profitability and sustainability.

What could downgrade the rating?

The rating could be downgraded if (1) there is a deterioration in capital and profitability; (2) the Company's risk appetite obviously becomes aggressive; or (3) its asset-liability management and liquidity are severely weakened.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Assets (RMB billion)	21.9	21.4	25.6	32.2
Total Equity (RMB billion)	10.4	10.6	11.1	11.6
Total Revenue (RMB billion)	3.2	3.3	5.0	5.5
Net Profits (RMB million)	-818.1	104.3	635.0	860.2
Pre-Tax Net Income/Average Assets (%)	-4.0	0.3	3.0	3.3
Return on Equity (%)	-7.5	1.0	5.9	7.7
Realizable Assets/Short-Term Debt (%)	20.8	28.1	25.7	23.4
Asset Impairment/Tangible Assets (%)	6.6	1.1	2.2	2.2
Problem Loans/Net Loans (%)	3.7	3.5	3.2	2.3

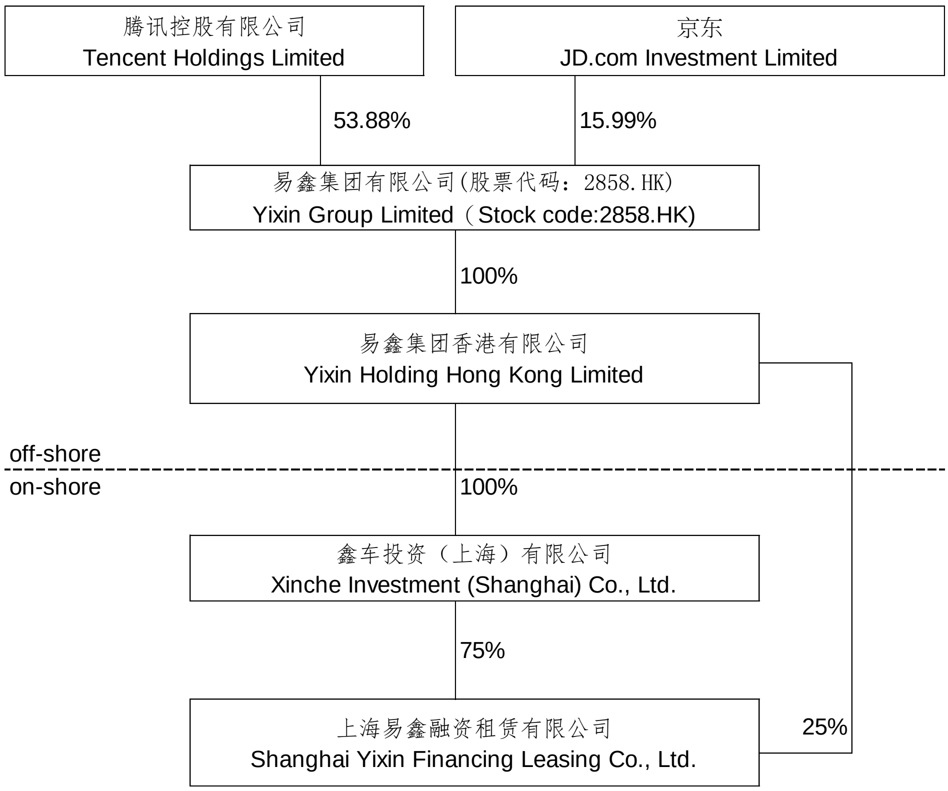
All ratios and figures are calculated using CCXAP's adjustments. 2023H1 figures are annualized for the last twelve months ended 30 June 2023.
Source: Company information, CCXAP research

Corporate Profile

Yixin Financing was founded in 2014 and is wholly owned by Yixin Group Limited ("Yixin Group"). Yixin Group is China's professional Internet automotive finance trading platform committed to providing consumers with more convenient, safe and efficient automobile financing services. Yixin Group has been listed in Hong Kong since 2017 (stock code: 2858.HK) and its two largest shareholders are Tencent and JD.com. As of 28 November 2023, Tencent Holdings Limited and its subsidiaries are the largest shareholders of Yixin Group, with a total holding of 53.88% equity interest of the Company. At the same time, JD.com Investment Limited and its subsidiaries held 15.99% stakes of Yixin Group.

Yinxin Financing is the core operating subsidiary of Yixin Group that principally engaged in loan facilitation services and self-operated financing business in China. Since 2018, the Company has transitioned its attention towards loan facilitation services, which surpassed all other revenue streams by the end of 2021. Its assets portfolio is mainly retail business, providing loans for car buyers. As of 30 June 2023, the Company's registered capital was USD1.5 billion and paid-in capital was around USD1.47 billion. At the same time, the Company's total assets and net assets increased to RMB32.2 billion and RMB11.6 billion, respectively.

Exhibit 1. Shareholder chart as of 28 November 2023



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

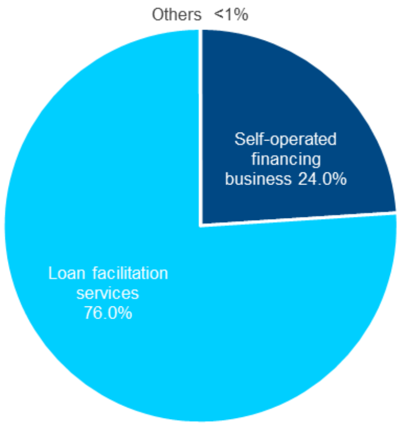
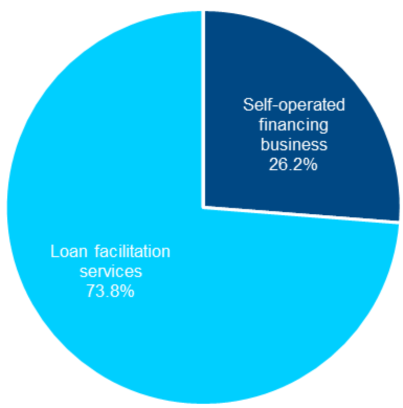


Exhibit 3. Gross profit structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Decelerating of automobile industry boom and tightening of financial leasing regulations

Finance lease is another financing solution besides obtaining loans from lending institutions. In recent years, the growth rate of the number of leasing companies and contract balances has continued to decline and has shown negative growth since 2021. As of the year-end 2022, there were 9,840 financial leasing companies in China, a decrease of 2,077 from the end of the previous year; while the contract balance decreased by 5.8% from the end of the previous year to RMB5.9 trillion. In addition, as a leasing company, Yixin Financing is under a stricter regulatory environment as the China Banking and Insurance Regulatory Commission ("CBIRC") has become the regulator for all Chinese finance leasing companies since April 2018, which were previously regulated by the Ministry of Commerce. The CBIRC issued various regulation policies, such as the "*Interim Measures for the Supervision and Administration of Financial Leasing Companies*" (融资租赁公司监督管理暂行方法) in June 2020 and *"Regulations on off-site Supervision of Financial Leasing Companies"* (融资租赁公司非现场监管规程) in February 2022. We believe that the tightening regulations will improve the regulatory framework for the industry, strengthen the supervision of leasing companies, and reduce the chance of market crunches in the long run. The regulatory change also requires a higher standard of management and internal control for financial leasing companies and increases their management pressure. We see that such impact is limited to Yixin Financing because it has already developed a well-established risk management framework and has good capital strengths.

The business development of Yixin Financing is closely related to China's automobile industry. After years of rapid development, given the rising penetration in automotive finance and the weakening demand on the automotive market under the pressure on the economic downturn, it will be difficult to achieve significant growth in sales in the automobile market of China. China's automotive finance market is fragmented, with a large number of banks, OEM-related auto finance companies, deal-related auto finance companies, financing leasing, and Internet financial platform such as Yixin Financing providing their financing services to car buyers. The decelerating market growth combined with intensified market competition will weaken the pricing margins of finance companies, thereby constraining Yixin Financing's business expansion. Yixin Financing's future expansion to the overseas market with advantages in Fintech may diversify its business concentration and expand market shares.

Strong franchise in China's automotive financial leasing industry

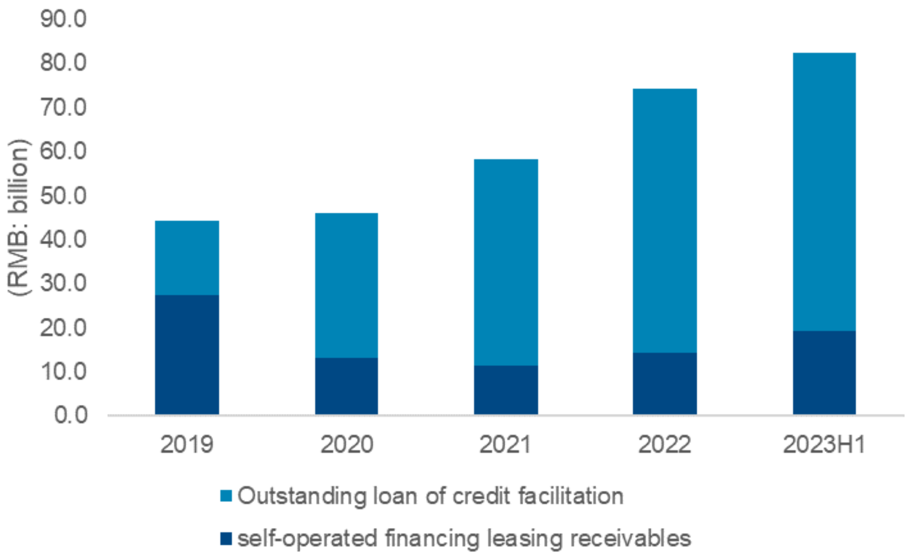
Yixin Financing has a strong competitiveness in the sub-sector of automotive financing leasing, with acquisition channels advantages and rich experience in the industry. It has cultivated the automotive financing leasing market since 2014 and has developed high approval efficiency, good risk identification and assessment and capacity for disposal and liquidity of vehicles. The databases and systems are well developed after years of development covering the whole trade such as an automated approval system, an asset valuation system(patented), risk control systems like Yixin Scores with around 5 million customer data, collection scorecards and auction disposal platform. It also received support from shareholders for access to customer's credit data and build its assessment system, which generally be a weakness for non-bank finance companies. As a market leader in the industry, Yixin Financing has sufficient resources to invest in fintech tools to increase service efficiency and improve its risk management ability.

Yixing Financing has good channel layout both online and offline, consisting of online channels, self-operated service teams and cooperation with OEMs. For the offline channels, as of year-end of 2022, the Company has 86 branches and has established headquarters-to-headquarters cooperation with over 40 OEMs including GAC

Toyota and Chang'an, covering over 36,000 dealer partners and covering more than 340 cities in more than 30 provinces. In addition, on the back of the data flow advantages of Tencent, JD.com and Bitauto, its shareholders and related parties, the Company has strong advantages in exploring potential customers and increasing exposure.

The Company's main business is primarily composed of self-operated financing leasing business and loan facilitation services. The managed assets of the credit facilitation business increased rapidly over the past three years, resulting in the managed assets of all platforms rising to around RMB82.4 billion as of the first half of 2023. For the loan facilitation business, the Company introduces customers to cooperative financial institutions for car borrowing and charges service fees. The upstream customers are mainly banks, insurance and financial leasing, while its downstream customers are mainly retail auto customers. The Company has established good and long-term relationships with multiple financial institutions which provide fixed or unlimited revolving credit facilities including Industrial and Commercial Bank of China and Shanghai Pudong Development Bank. In addition, the Company also provides SaaS services to assist financial institutions to strengthen their risk control capabilities and product experience in auto finance business.

Exhibit 4. Managed assets of all platforms from 2019FY to 2023H1



Source: Company information, CCXAP research

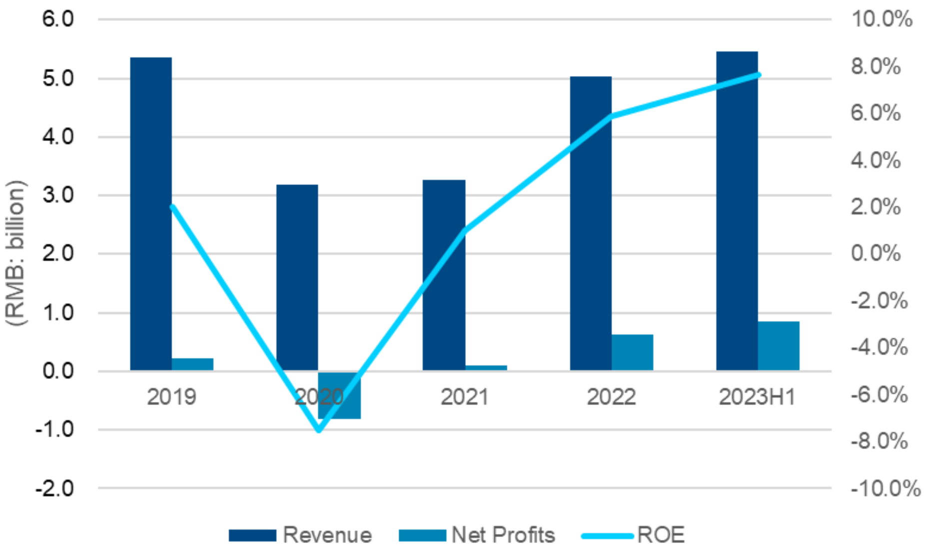
Weak but improving profitability

There was a fluctuation on Yixin Financing's profitability mainly due to the negative impact on profitability in 2020. The change in strengthened supervision of the collection industry during 2019 increased the difficulty in the disposal of assets and made the Company's overall recovery rate of overdue assets decline. The deteriorating asset quality had negative influences on revenue and net profit as impairment rushed. In 2020, the self-operated financing leasing receivables nearly halved from 2019 and the non-performing asset ratio of self-operated financial leasing (calculated by self-operated leasing assets overdue over 90 days/total self-operated leasing assets) increased significantly to 3.7%. In 2020, it recorded revenue and net loss of RMB3.2 billion and RMB818.1 million, respectively.

We expected that the negative situation in 2020 will have a limited impact on the Company in the future given the more prudent risk measure and improved profitability after 2020. Since the Company has paid more attention to risk control for customers to mitigate the risk during disposal and liquidity. In addition, the Company also increased efforts in assets disposal in 2020. Yixin Financing's profitability has improved significantly since 2020 mainly driven by the expansion of the loan facilitation business. As most of the service fee of credit facilitation business is recognized as revenue once, the revenue from credit facilitation increases significantly along with the expansion of business scale. From 2020 to 2022, its total revenue increased from RMB3.2 billion to RMB5.0 billion, with a compound annual growth rate ("CAGR") of 25.8%. Its revenue from credit facilitation increased from RMB1.2 billion to RMB3.8 billion over the same period, with a CAGR of 78.7%, while the revenue from self-operated financing leasing decreased to RMB1.2 billion from RMB1.9 billion. The financial leasing business is mainly in the form of leaseback and the majority of revenue is generated from the individual passenger car business.

Yixin Financing also made a turnaround in 2021 and generated net profit of RMB635.0 million in 2022. As the Company tightens the risk control policy to control overdue rate, the impairment slow down after 2020. From 2020 to 2022, the pre-tax net income/average asset ratio increased to 3.0% from -4.0% and return on equity ("ROE") rose to 5.9% from -7.5%. The average pre-tax net income/average asset ratio and the average ROE were -0.2% over the past three years.

Exhibit 5. Revenue, net profits and ROE from 2019FY to 2023H1



2023H1 figures are annualized for the last twelve months ended 30 June 2023.

Source: Company information, CCXAP research

In the first three quarters of 2023, Yixing Financing recorded revenue and net profit of RMB4.6 billion and RMB998.8 million, increasing by 29.9% and more than double year-on-year, respectively. Given the strong franchise in China's automotive financing leasing industry and its prudent credit measure, we expect the profitability will continue improving in the next 12-18 months.

Asset quality which is challenged by the broad economic slowdown

Yixin Financing divides assets based on the number of overdue days as it has not adopted the "five-level classification" standard. With a stricter risk control policy and improved asset quality, the non-performing asset ratio has improved since 2021 but remains weak. The portion of underlying below RMB50 thousand has decreased and the portion of underlying ranging RMB50 thousand to RMB500 thousand has increased. The value of the main underlying is around RMB100 thousand to RMB150 thousand. In addition, a higher portion of managed assets from loan facilities business which are mainly provided to banks improved the overall asset quality. As of mid-2023, the Company's non-performing asset ratio of self-operated financial leasing and provision coverage ratio (measured by receivables due over 90 days) was 2.3% and 142.1%, respectively.

Yixin Financing's asset portfolio is highly concentrated on the Chinese automobile market, which is challenged by Chinese economic slowdown pressure. The Company has a moderate risk appetite with proper selection to trade off risk and return. The main customers are retail customers within lower-tier cities characterized by low per-capita income, which are more susceptible to the changes in macroeconomic conditions. Overall, the Company's business has small single transaction amounts, high business dispersion and low customer concentration, which are aligned with the nature of retail business. As of 30 June 2023, there were certain geographic concentration with the South China region (including Shenzhen, Guangdong, Hainan and Guangxi) accounting for around 18.7% of investment. The Company's used car business has accounted for a relatively large portion, which is considered to have higher business risk. With the increase in investment in the new car business and prudent attitude toward the used car business, the portion of used cars decreased to below 50% as of year-end 2022.

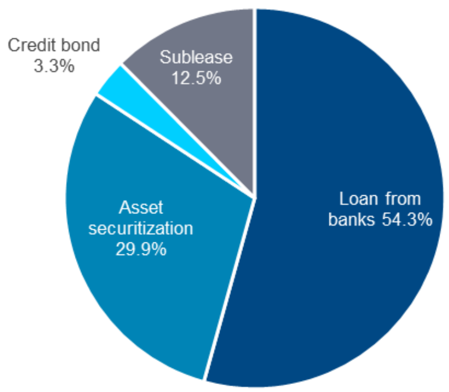
Credit contagion risk from its affiliates

Yixin Financing has credit contagion risk from its affiliates because of the loan facilitation business, given their close relationship under the control of Yixin Group. Under the arrangements with certain financial institutions for loan facilitation services, Yixin Group, its parent company, is obligated to purchase the relevant loans upon certain specified events of default by car buyers. The total outstanding balance of loans funded by financial institutions under such arrangements increased to RMB45.8 billion as of 30 June 2023, compared to RMB44.6 billion as of 31 December 2022. In addition, there was a high portion of the receivables from related parties, which was mainly used for contribution or capital increase to financing guarantee companies within Yixin Group. As of 30 June 2023, the receivables from related parties increased to RMB4.0 billion from RMB2.9 billion in 2020, accounting for around 12.5% of total assets.

Good access to diversified funding

The Company has good access to diversified funding channels mainly including traditional loans from banks, sublease and onshore debt capital markets, including bonds and asset-backed securities ("ABS") and asset backed medium-term notes ("ABN"). The Company has a good track record in accessing the debt markets for fundraising as Yixin Group, its parent company, was listed on the Hong Kong Stock Exchange. In the first half of 2023, Yixin Financing raised around RMB3.4 billion on the onshore bond market through ABS and ABN with a weighted average coupon rate of 4.1%. The coupon rates of ABS and ABN issued during the first half of 2023 demonstrated a downward trend. The Company started to issue SCP in 2022 and the outstanding SCPs have coupon rates ranging from 4.8% to 5.2% as of mid-2023. Reduced reliance on secured debt improves a finance company's financial flexibility. Loans from banks and asset securitization are the main types of total debt. Around 54.3% of its total debt was raised by bank loans, with a total borrowing amount of around RMB9.9 billion as of 30 June 2023.

Exhibit 6. Debt type profile as of 30 June 2023



Source: Company information, CCXAP research

The Company maintains moderate asset-liability management without significant duration mismatch. On the one hand, the Company's leasing receivables tenor is mainly less than 1 year due to auto finance assets generally being shorter, which roughly matches the maturities of the Company's debt. However, the increasing short-term debt burden may increase pressure on liquidity. Yixin Financing's liquidity buffer was moderate, given its low level of liquid assets. As of mid-2023, the realizable assets/short-term debt ratio decreased to 23.4% mainly due to the increase in short-term debt. At the same time, the restricted assets amounted to RMB11.4 billion, most of which were leasing receivable for ABS and ABN projects, accounting for total assets of 35.3%. The secured debt/tangible assets ratio was moderate at 38.5% as of year-end 2022.

The weak liquidity position could be partly mitigated by good standby liquidity cushion, with available credit facilities of RMB3.5 billion as of 30 September 2023. The credit facilities were provided by diversified banks, including large domestic banks such as China Postal Savings Bank and China Bank of Communications.

Rating Methodology

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

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