

Credit Opinion

20 August 2024

Ratings	
Category	Financial Institution
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A _g -
Outlook	Stable

Analyst Contacts

Vincent Tong +852-2860 7125
Assistant Director of Credit Ratings
vincent_tong@ccxap.com

Kelly Liang +852-2860 7127
Credit Analyst
kelly_liang@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

China Kangfu International Leasing Co., Ltd.

Initial credit rating report

CCXAP assigns the first-time long-term credit rating of A_g- to China Kangfu International Leasing Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of China Kangfu International Leasing Co., Ltd. (“Kangfu Leasing” or the “Company”) is underpinned by the Company’s (1) good business synergy with shareholders, supporting its business growth; (2) proven risk management and control with a relatively low risk appetite; and (3) diversified funding channels and good financial flexibility.

However, the rating is constrained by (1) weakened operating environment from tightening regulations and economic slowdown; (2) the Company’s asset concentration in the new energy industry; and (3) increasing exposure to clean energy investment which may challenge its management capacity and heighten its debt leverage.

The rating also reflects the likelihood of support from its two key shareholders, namely, State Power Investment Corporation Limited (“SPIC”) and Sany Group Co., Ltd., (“Sany Group”), which is based on the Company’s (1) strategic position as one of the key financial leasing platforms for SPIC and Sany Group; (2) track record of receiving operational and financial support from key shareholders; (3) certain reputation risk to its shareholders.

The stable outlook on Kangfu Leasing’s rating reflects our expectation that the Company will maintain its stable business position and financial metrics over the next 12 to 18 months; and the support from its key shareholders is unlikely to change during the period.

Rating Drivers

- Good business synergy with shareholders, supporting its business growth
- Proven risk management and control with a relatively low risk appetite
- Diversified funding channels and good financial flexibility
- Weakened operating environment from tightening regulations and economic slowdowns
- High asset concentration in clean energy sector
- Increasing exposure to clean energy investment
- Likelihood of support from the key shareholders

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if the Company (1) obtains stronger support from its shareholders; (2) improves its regional and industrial diversifications as well as its asset quality; or (3) has a stronger capital position and profitability.

What could downgrade the rating?

The rating could be downgraded if (1) key shareholders' willingness and capacity to provide support decreases; or (2) the Company's asset quality materially deteriorates, such as surging problem assets and impairment losses, capital position weakens significantly because of aggressive asset expansion, profitability declines obviously, or asset-liability management and liquidity position weaken severely.

Key Indicators

	2021FY	2022FY	2023FY
Total Assets (RMB billion)	24.1	33.5	39.6
Total Equity (RMB billion)	19.5	28.4	33.3
Total Revenue (RMB billion)	1.6	1.5	2.2
Net Profit (RMB billion)	0.3	0.4	0.4
Pre-Tax Net Income/Average Assets (%)	1.7	1.6	1.3
Return on Average Equity (%)	7.5	7.3	6.9
Realizable Assets/Short-Term Debt (%)	35.5	17.5	28.7
Asset Impairment/Tangible Assets (%)	0.5	0.4	0.3
Problem Loans/Net Loans (%)	1.8	1.4	1.4

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

Source: Company data, CCXAP research

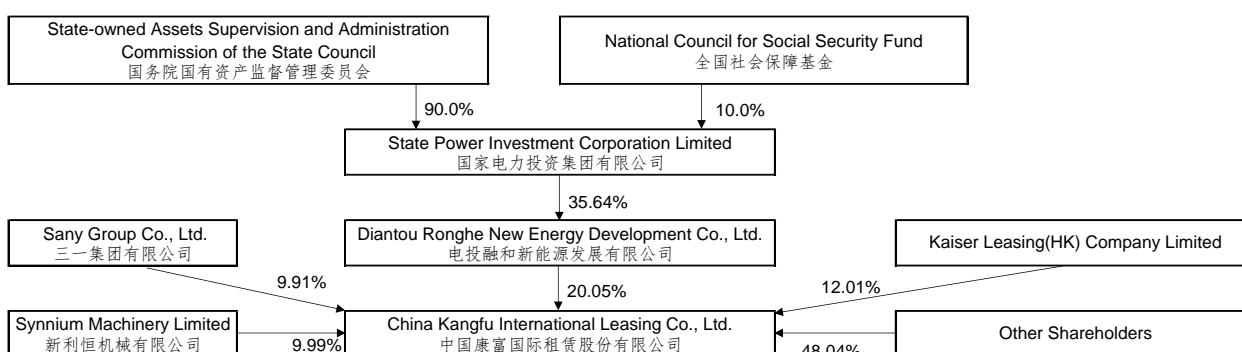
Corporate Profile

Founded in 1988 and registered in Beijing, Kangfu Leasing is a leasing company that provides financial services to different customers, covering direct lease as well as sale and lease back. Since 2021, the Company has promoted a transformation strategy, namely, the "finance + industry" model by integrating the clean energy investment business and financial leasing business. The Company was listed on the National Equities Exchange and Quotations in September 2015. As of 31 December 2023, the Company reported total assets of RMB39.6 billion and net assets of RMB33.3 billion.

Diantou Ronghe New Energy Development Co., Ltd. (“Diantou Ronghe”) is the largest shareholder of Kangfu Leasing, holding 20.05% shares of Kangfu Leasing. Diantou Ronghe is an associate of SPIC that specializing in new energy investment and financing services sector. SPIC held 35.46% of Diantou Ronghe’s shares as of 31 December 2023.

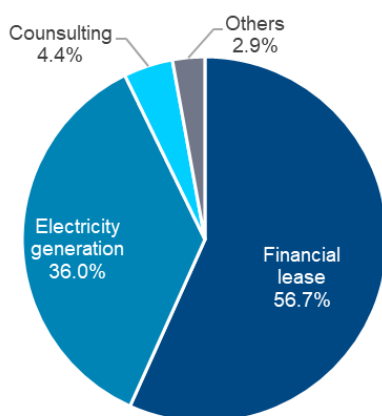
In July 2020, Diantou Ronghe dissolved the agreement on concerted actions signed with other shareholders in order to meet the new requirements from the local regulator. After that, Kangfu Leasing has no controlling shareholder and ultimate actual controller. Nevertheless, we see that there is no substantial change in its strategic status towards its shareholders as Kangfu Leasing remains a member of SPIC and is under SPIC’s management and supervision.

Exhibit 1. Shareholder chart as of 31 December 2023



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

Rating Considerations

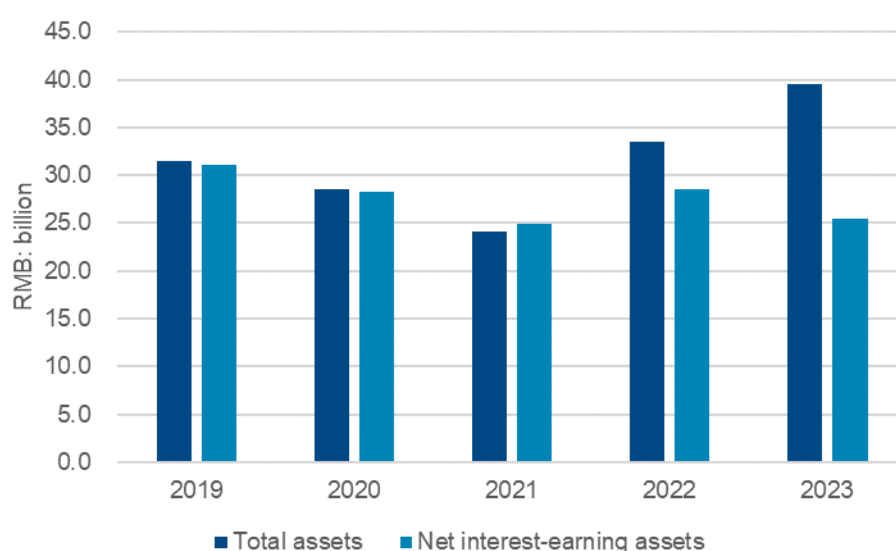
Weakened operating environment from tightening regulations and economic slowdowns

Financial leasing is another financing solution besides obtaining loans from lending institutions. Over the past years, Chinese financial leasing companies have offered corporate customers more flexible and cost-effective financing solutions, particularly for small and medium-sized enterprises (“SMEs”) with limited access to traditional lending institutions. The sector is now 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 was 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. In addition, several provincial-level cities have successively introduced regulatory implementation rules for financing leasing companies. The tightening regulations, in the long run, is expected to improve the regulatory framework for the industry, strengthen the supervision of leasing companies, and reduce the chance of market crunches. Nevertheless, the regulatory change requires a higher standard of management and internal control for financial leasing companies and increases their management pressure.

The business development of Kangfu Leasing is also closely related to China’s economic changes and the development of the leasing industry. The financing leasing market in China has been under a contraction since 2020 owing to tightening policies and unfavorable market environment. As of 31 March 2024, the outstanding financial leasing contracts in China decreased by 0.4% to RMB5.6 trillion compared to that at end-2023. The decelerating market growth will also intensify market competition and weaken the pricing margins of leasing companies, thereby restricting Kangfu Leasing’s business expansion. The ascending rivalry in the financial leasing market is still expected to challenge small-to-medium size lessors, including Kangfu Leasing.

Good business synergy with shareholders, supporting its business growth

Kangfu Leasing has formed a proven financial leasing business development underpinned by its good business synergy with shareholders and strong market development capability. Kangfu Leasing’s shareholders, including SPIC and Sany Group, are one of the market leaders in their specific sector in China. The Company has developed a strong customer base from both the upstream and downstream sides of its shareholders and shareholders’ referrals, enabling it to maintain a stable business portfolio scale even in an unfavorable market environment. Kangfu Leasing’s shareholder background also supported it to implement its “finance + industry” transformative strategy in 2021. In order to diversify its revenue structure and sustain growth, the Company has increased its business cooperation with its shareholders and stepped in clean energy investments. With ongoing business growth, Kangfu Leasing reported total assets of RMB39.6 billion as of the end of 2023, increasing by 64.5% from that of the end of 2021.

Exhibit 3. Kangfu Leasing's total assets and net-interest earning assets

Source: Company information, CCXAP research

Kangfu Leasing has established a subsidiary, namely Shanghai Fuhong New Energy Technology Co., Ltd. (“Fuhong”), to operate and manage new energy investment projects. At the initial development stage, the Company acquired clean energy investment projects through merging and acquisition, mainly from SPIC, SPIC’s affiliates or existing financial leasing clients. The Company also builds its own new energy projects through cooperation with SPIC’s affiliated power generation or engineering construction companies. As of the end of 2023, the Company has 28 photovoltaic power plants and 4 wind power plants, with a holding installed capacity of 1,726.1 megavolts (“MV”) and 666.0 MV. Most of these power plants are entrusted to SPIC’s operating affiliates or local professional generation companies for operation and maintenance. The new energy electricity generation business has enhanced the Company’s revenue diversification and provides a new growth driver. In 2023, income from electricity generation increased to RMB800 million, which accounted for around 36.0% of its revenue. However, Kangfu Leasing’s new energy investments are unseasoned with short operating history and the risk control practices will remain to be tested.

Proven risk management and control with a relatively low risk appetite

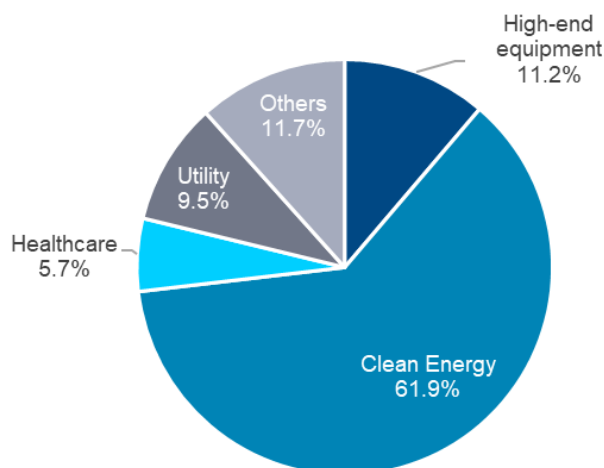
Kangfu Leasing’s asset quality is stable with its prudent client selection and focused industry experience. Its nonperforming asset ratio for its financial leasing business decreased from 1.8% at end-2020 to 1.4% at end-2023, supported by its sector shift to clean energy and enhanced risk management. Its special mention asset ratio was 2.4% at end-2023, remained at a manageable level. The nonperforming assets are mostly generated from a few lessees in sectors such as chemicals and vehicle operators. The Company has taken measures such as collection, litigation and disposal of collaterals to recover the loss on lease receivables. The Company also reduces the exposure to non-shareholder business to lower its credit risk. For example, it stopped new financial leasing in the downside sectors and increased the investments in shareholder business in 2021. Kangfu Leasing has sufficient provisions coverage of RMB430 million as of 31 December 2023, which is able to fully cover its nonperforming assets.

High asset concentration in the clean energy sector

Kangfu Leasing has large and concentrated exposures to the clean energy sector. The clean energy sector represented over 60% of its outstanding financial lease assets as of 31 December 2023. Together with the large

capital expenditure in clean energy investment through Fuhong, it exposed Kangfu Leasing to higher asset concentration risk. There could be a potentially large impact on its overall asset quality metrics in the event of the industry sluggish. In addition, the largest single client accounted for 28.2% of its net assets and the top 10 clients accounted for 125.0% of its net assets, as of the end of 2023. The concentration risks are partially mitigated by Kangfu Leasing's prudent project selection and proven risk management ability.

Exhibit 4. Kangfu Leasing's financial leasing assets by sectors as of 31 December 2023



Source: Company information, CCXAP research

Moderate profitability due to industry spreads fall and initial stage of clean energy

Kangfu Leasing's profitability is moderate as the clean energy investment business was at the initial stage while the financial leasing business was shrinking. For the financial leasing business, affected by factors such as intensified industry competition, tightened regulatory policies, and transformation of business strategies, both the scale and yield declined compared to the previous year. In 2023, the income from financial leasing reduced by 2.8% to RMB1.4 billion, which remained the main source of the Company's income. The ratio of income from financial leasing/average net financial leasing receivables decreased to 6.4% as at end-2023.

The expansion of the new energy business drove the rise in expenditures including interest expenses and operating expenses, which result in a lower pre-provision margin. The Company implements strict cost control measures, for example, to lower its financing costs by replacing existing high-cost financing. However, the increase in operating expenses is mainly driven by employee compensation, business hospitality expenses and travel expenses. Its average pre-tax net income/average assets and average return on average equity was 1.3% and 6.9% in 2023, declining from 1.7% and 7.5% in 2021, respectively.

The new energy investment business became a driving force for the Company's revenue and profitability. In 2023, the income from electricity generation achieved RMB800 million and accounted for 36.0% of total revenue, significantly increasing from RMB15.5 million and 1.1% in 2022, respectively. The return on new energy investments is good. As of the end of 2023, the annualized returns on net assets of projects that have achieved grid connection were between 8%-12%. As more new energy projects will be put into operation, the revenue and profitability are expected to improve. However, there are challenges to the Company's operational efficiency as electricity prices of new energy projects become market-oriented.

Capital replenishment pressure from new energy investment

Financial leasing is a capital-intensive industry and new energy investment is a heavy asset business, leading Kangfu Leasing to have a higher debt leverage. Its leverage, as measured by total debt to total capital, was 81.5% at end-2023 from 78.8% at end-2021. Its capital adequacy, as measured by shareholders' equity (excluding perpetual bonds) to total assets, was at a moderate level of 15.9% as at end-2023. The Company's equity base is mainly replenished by endogenous profit retention. As of end-2023, Kangfu Leasing reported a total equity of RMB6.3 billion, increasing 38.2% from that of 2021. With the further development of the new energy investment business, the Company's leverage level may increase and the Company may also face certain pressure on capital replenishment.

Diversified funding channels and good financial flexibility

Kangfu Leasing, similar to most leasing companies, relies on confidence-sensitive wholesale funds to finance its operations. The potential for unexpected changes in the availability and cost of market-based funding inherently implies greater operational risks for the Company, as compared to the retail deposit-funded banking institutions. Its realizable assets, such as unrestricted cash, are relatively low compared with its short-term debt. Nevertheless, given its strong shareholder background, the Company has diversified funding channels with good capacity to acquire long-term funding such as bond issuances and long-term bank borrowings. The Company maintains large amounts of credit lines from various banks and a low secured debt-to-tangible assets ratio. Diantou Ronghe has a track record of supporting the Company's funding in the form of direct shareholder loans. The Company also has an established presence in onshore debt capital markets. For example, the Company issued two tranches of 3-year fixed rate MTNs in 2024 to raise RMB630 million with the investors' entitlement to sell back at the end of the second year and coupon rates of 2.55% and 2.77%, respectively. It also has a good track record in accessing innovative financial products such as ABS and ABN.

External Support

Likelihood of support from the key shareholders

We expect Kangfu Leasing is likely to obtain support from its key shareholders in times of need. This expectation incorporates our considerations that the Company's (1) strategic position as one of the key financial leasing platforms for SPIC and Sany Group; (2) track record of receiving support from key shareholders in the form of client referral, asset disposal, shareholder loans, and capital financing; (3) certain reputation risk to its shareholders.

SPIC is one of the "big five" central government-owned power producers in China. It was 90% owned by the State-owned Assets Administration and Supervision Commission ("SASAC") of the State Council of China as of the end of 2023. At the same time, SPIC reported total assets of RMB1,753.5 billion and net assets of RMB550.4 billion. For the year 2023, SPIC achieved revenue of RMB385.7 billion and net profits of RMB33.1 billion.

Sany Group is one of the world's top 50 construction machinery manufacturers, the world's largest concrete machinery manufacturer, and one of the top 500 Chinese enterprises. As of the end of 2023, Sany Group reported total assets of RMB239.4 billion and net assets of RMB85.6 billion. In 2023, Sany Group achieved revenue of RMB102.0 billion and net profits of RMB6.7 billion.

Despite its limited scale, Kangfu Leasing plays an important role in promoting the business development of clean energy for SPIC and construction machinery for Sany Group through the integration of finance and

industry. The Company has a proven track record of receiving various support from SPIC and Sany Group. For example, SPIC has a track record of providing direct loans to the Company through Diantou Ronghe. SPIC's strong capacity to acquire and dispose power plants supports the Company's disposal of nonperforming assets in the clean energy sector. Sany Group and its related companies provide credit enhancement measures for its leasing business with the Company. We expect that the SPIC and Sany Group have strong capacity and moderate willingness to support the Company in times of need.

Rating Methodology

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

Copyright © 2024 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