

## Credit Opinion

17 December 2024

Ratings	
Category	Financial Institution
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> +
Outlook	Stable

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## Henan Zhongyu Credit Promotion Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms the long-term credit rating of Henan Zhongyu Credit Promotion Co., Ltd. at A<sub>g</sub>+, with stable outlook.**

### Summary

The A<sub>g</sub>+ long-term credit rating of Henan Zhongyu Credit Promotion Co., Ltd. ("HZCP" or the "Company") is underpinned by the Company's (1) strong market position as the first credit enhancement company in Henan Province; (2) solid capital base supported by its large state-owned enterprises ("SOEs") shareholders; and (3) good funding access.

However, the rating is constrained by the Company's (1) concentrated risk exposure in Henan Province; (2) business development and asset quality that are subject to economic and policy changes; and (3) limited operating track record.

The rating also incorporates our expectation that the Company has a high likelihood of government support, given its (1) indirect ownership and ultimate control by the Henan Provincial Government; (2) very high strategic importance in optimizing and stabilizing the financial environment of Henan Province; and (3) solid support record from the government and major local SOEs in Henan Province.

The stable outlook on HZCP's rating reflects our expectation that the willingness and ability of the Henan Provincial Government to provide support is unlikely to change. We also expect the Company to sustain its strategic position and solid financial profile in the next 12 to 18 months

## Rating Drivers

- Strong strategic position as the first credit enhancement company in Henan Province
- Concentrated risk exposure in Henan Province
- Business development and asset quality are subject to economic and policy changes
- Limited operating track record
- Solid capital base supported by its large SOEs shareholders
- High likelihood to receive government support, when necessary

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of receiving government support increases such as higher policy roles or greater strategic importance in Henan Province; and (2) the Company's institution profile has significantly strengthened such as improved profitability, better coverage in potential claims or larger high-liquid asset holdings.

### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of receiving government support decreases such as the weakened strategic importance in Henan Province; or (2) the Company's institution profile deteriorates, such as sharp decrease in capital adequacy or sharp asset quality.

### Key Indicators

	2022FY	2023FY	2024H1
Total Assets (RMB billion)	4.1	13.4	16.1
Total Equity (RMB billion)	4.1	12.2	12.5
Net Profit (RMB billion)	0.1	0.3	0.3
Return on Equity (%)	-	3.2	5.0
Accumulated Claim Ratio (%)	0.0	0.0	0.0
Risk Reserve/Outstanding Guarantees (%)	0.1	0.4	0.6
High Liquid Assets/Total Assets (%)	30.5	20.7	9.7

All ratios and figures are calculated using CCXAP's adjustments. Ratios in 2024H1 are calculated using annualized data.

Source: Company data, CCXAP research

## Corporate Profile

HZCP was the first provincial credit enhancement company in Henan Province founded under the guidance of the State-owned Assets Supervision and Administration Commission of Henan Provincial Government ("Henan SASAC") in February 2022. It has a high policy role in facilitating the development of regional direct finance, enhancing the financing abilities of local enterprises, and optimizing the financial environment of Henan Province. HZCP mainly provides traditional credit enhancement services to standardized bond market products, such as Medium-term Notes ("MTN") and Corporate Bonds. The Company also engages in investment business, mainly in fixed income products. In September 2023, HZCP completed a capital expansion of RMB8.0 billion, which was provided by the key SOEs in Henan Province.

HZCP is owned by provincial and municipal SOEs. As of 30 September 2024, major shareholders of the Company included Henan Yuzi Urban-Rural Integration Construction & Development Group Co Ltd ("HYUG")

(holding 17.5%) and Henan Enterprise Credit Insurance Fund (Limited Partnership) (“Henan Insurance Fund”) (12.5%) and China Pingmei Shenma Holding Group Co., Ltd. (“Pingmei Shenma”) (8.3%). The ultimate controller of the Company is Henan SASAC.

#### Exhibit 1. Shareholding chart as of 30 September 2024

Henan Yuzi Urban Rural Integration Construction and Development Group Co., Ltd. 河南省豫资城乡一体化建设发展集团有限公司	17.5%	
Henan Enterprise Credit Insurance Fund (Limited Partnership) 河南省企信保基金（有限合伙）	12.5%	
China Pingmei Shenma Holding Group Co., Ltd. 中国平煤神马控股集团有限公司	8.3%	
Shangqiu Enterprise Credit Insurance Management Co., Ltd. 商丘企信保信用管理有限公司	5.4167%	Henan Zhongyu Credit Promotion Co., Ltd. 河南中豫信用增进有限公司
Kaifeng Enterprise Credit Insurance Investment Partnership (Limited Partnership) 开封市企信保投资合伙企业（有限合伙）	5.4167%	
Henan Zhongyu Asset Management Co., Ltd. 河南中豫资产管理有限公司	4.1688%	
Other state-owned enterprises in Henan Province 其他河南省国有企业	46.6978%	

Source: Company information, CCXAP research

## Rating Considerations

### Operating Environment

HZCP is domiciled in mainland China and most of its revenue is generated in Henan Province. HZCP’s macro profile is **Medium**, which reflects Henan Province’s (1) robust economic and fiscal strength, (2) good institutional strength, and (3) improving operating environment for financial guarantors. However, the macro profile is undermined by (1) low barriers to entry of China’s financial guaranty sector, which drive a lower rate of underwritten premium; and (2) weakened credit condition, which may increase the industry’s vulnerability.

China has strong economic fundamentals and institutional strength. Supported by China’s border reopening and the recovery in production and domestic demand, China also demonstrated a good, albeit moderating, economic recovery in 2023. It is the second-largest economy in the world, with a gross domestic product (“GDP”) of RMB126.1 trillion in 2023, representing a year-on-year (“YoY”) growth of 5.2%. According to the preliminary data, in the first three quarters of 2024, China’s GDP grew by 4.8% YoY to RMB95.5 trillion. In addition, China’s strong institutional strength is reflected in the long-term stability of its political environment and the high efficiency of its government.

Henan Province has a relatively stable economic growth, providing a good support for the development of the financial industry in Henan Province. It is located at the junction of the three major regions in China, including eastern, central and western regions. It has a strategic position as an important transportation and communication hub, and a material distribution center in China. With the good transportation and location advantages, Henan Province’s general regional product (“GRP”) grew by 4.1% YoY in 2023 to RMB5.9 trillion, ranking 6<sup>th</sup> among all provinces in China for the year. Henan Provincial Government’s fiscal strength also improved along with the economic growth. In 2023, its general public budget revenue increased 6.2% YoY to RMB451.8 billion. As of end-2023, the deposit balance of financial institutions in Henan Province amounted to RMB10.0 trillion, rising by 8.0% YoY, and the loan balance was RMB8.4 trillion, rising by 9.7% YoY.

The operating environment for Chinese financial guarantors is improving with a clearer regulatory framework and supportive government stance. In 2017, the State Council issued the “*Regulation on the Supervision and Administration of Financing Guarantee Companies*” (《融资担保公司监督管理条例》) and the China Banking and Insurance Regulatory Commission released the supplementary provisions in 2018 and 2019, to clearly define the responsibility of the supervisory bodies and related regulatory metrics. In September 2023, the Financial Supervision and Administration Bureau of Henan Province also released the “*Guidelines for the Supervision and Rating of Financing Guarantee Companies in Henan Province*” (《河南省融资担保公司监管评级工作指引》) to effectively strengthen the supervision of financing guarantee companies, and promote the standardized and healthy development of the financing guarantee industry in Henan Province.

However, the Chinese financial guaranty industry has low concentration with low entry barriers and the sector is highly fragmented with different market participants. This may put higher pricing pressure on premium rates and erode financial guarantors’ profitability in the long run. In addition, the weakened credit condition, such as increasing default events and limited financing environment for particular industries, may increase the vulnerability of the guaranty industry.

## **Institutional Profile**

### **Strategic position as the first credit enhancement company in Henan Province**

HZCP is the first credit enhancement company established in Henan Province, under the guidance of the People's Bank of China, the National Association of Financial Market Institutional Investors, and the Henan Provincial Local Financial Supervision Bureau. HZCP has a high strategic role for the local government in preventing systemic financial risk and optimizing the financial environment in Henan Province. It helps assist the government to build a risk sharing mechanism in the province and broaden financing channels for local enterprises with lowering funding costs. The default of Yongcheng Coal & Electricity Holding Group Co., Ltd., a large local state-owned coal mining company in Henan province, has made a big hit to the financing market of the province in 2020, leading a substantial economic loss for Henan Province and bringing the reputation risk to the local government. HZCP is established with a strategic aim to improve the stability of capital market in Henan Province.

Since its establishment in 2022, HZCP has actively expanded its business and demonstrated a rapid growth for its credit enhancement business. As of 30 June 2024, HZCP had an outstanding credit enhancement exposure of RMB18.3 billion, increasing from RMB1.7 billion as of end-2022. More than 75% of its credit enhancement businesses were bond guarantees, and the remaining were loan guarantees with pledged time deposits. The Company has a dominate market position in Henan Province, with over 60% market share in bond guarantees provided by professional credit enhancement companies in 2023. HZCP also enjoys the ongoing growth of China’s bond market in its traditional credit enhancement business in standardized bond products and is going to extend the coverage to other innovative products such as ABS, CRMA, and CRMW. HZCP’s strong capital strength also supports the implementation of comprehensive risk management and hiring experts.

### **Geographic concentration of guarantee portfolio in Henan Province**

HZCP’s asset quality remains moderate with geographic concentration of its guarantee portfolio mainly in Henan Province, given its strategic position in the region. It undertakes the responsibility to stabilize the local bond market and has been participated in debt resolving of local SOEs. For example, as of 30 June 2024, the Company had provided credit enhancement of RMB2.0 billion to the bonds issued by Henan Energy Group Co., Ltd., the largest local state-owned coal company in Henan Province that has suffered financial difficulties, helping it to refinance and return to the debt capital market. HZCP’s existing customers are mostly constituted

by municipal level SOEs and we believe that the Company may extend more of its coverage to county-level SOEs in the future to capture business growth. We expect that HZCP's business performance is susceptible to the credit change of local enterprises.

HZCP has a moderate business scale that results in a concentrated guarantee portfolio. The largest client accounted for around 17.1% of its core capital and 10.9% of the total credit enhancement amount as of 30 June 2024. Such client concentrated risk could be partly mitigated by HZCP's high-quality client base and sufficient risk control measures. Most of the clients are SOEs and local infrastructure investment and financing companies ("LIIFCs") that are backed by government support or favorable policy. These clients are relatively less vulnerable to the economic cycles and are more likely to receive solid government support in stressed scenarios. Apart from that, the Company also undertakes necessary risk mitigation measures. Most of the clients are required to provide third-party guarantees or asset pledges to reduce the potential losses, such as land, properties, equity shares and accounts receivables with reasonable liquidity.

In addition, the Company's credit enhancement portfolio is mainly made up of credit enhancement portfolio on traditional products such as MTN and corporate bonds. Most of these products are simple and have higher information transparency that lowers the risk of misvaluation.

### **Business development and asset quality are subject to economic and policy changes**

HZCP's business development and asset quality are closely linked with local economic and policy changes. Guarantors in China face high competition that may diminish their profitability. The internal capital generation of HZCP remains weak as it has a small scale of revenue and profit. With the development of credit enhancement business, the Company's revenue increased to RMB145.0 million in 2023 from RMB3.2 million in 2022. The net profit of the Company also increased to RMB258.5 million from RMB92.3 million over the same period, contributed mainly by fixed-income investments. The Company has established a mechanism for its provision reserve to against contingent risks, including risk provision for credit enhancement liability, special risk provision and technical risk provision. However, the Company's risk provisions were still small at RMB115.9 million as of 30 June 2024, given limited operating record. The provisions to outstanding credit enhancement ratio was approximately 0.6%, as of the same date.

HZCP's investment business includes fixed-income investments and equity investments, which generated supplementary income to the Company. HZCP has offered loans to the key subsidiaries of its shareholders and invested in bonds that are guaranteed by the Company in guarantee business. The amount of entrusted loans the Company offered in 2023 has largely increased to RMB6.3 billion, mainly short-term loans provided to SOEs in Henan Province to control liquidity risks. It may also timely invest in bonds that are deemed to be undervalued in the secondary market, given its information advantage in local market. Most of the Company's fixed-income investments were issued by LIIFCs in Henan Province. In addition, HZCP provides liquidity support to enterprises through equity investment. The Company is expected to invest in growing sectors in the future such as new energy, semiconductors, new materials, and high-end intelligent manufacturing industries. The Company's interest income and investment gains were recorded at RMB236.6 million and RMB96.8 million in 2023 respectively, which help support its bottom-line profitability. However, the volatility of the stock market, coupled with the occurrence of credit events, will exert greater challenges to the Company's investment strategy and asset allocation.

We believe that HZCP's business scale will continue to grow over the next 12 to 18 months. It has a relatively large scale of credit enhancement project reserves of more than RMB16.0 billion in different bond products. We also expect the Company will receive strong business support from its shareholders, given its strategic position

in Henan Province.

### **Solid capital base supported by its large SOEs shareholders**

HZCP's capital profile is strong which is supported by large capital expansion from local SOEs. These provide the Company with a healthy loss-absorption buffer against unexpected market volatilities. HZCP was initially established by HYUG, and jointly invested with other five large SOEs in Henan Province, including Henan Insurance Fund, Pingmei Shenma, Henan Zhongyu Asset Management Co., Ltd., Luoyang Jinhe Investment Development Co., Ltd, and Henan Asset Management Co., Ltd., with a registered and paid-in capital of RMB4.0 billion. In September 2023, HZCP completed a substantial capital expansion of RMB8.0 billion, which was provided by some of its shareholders and other municipal SOEs in Henan Province. After the capital expansion, HZCP's paid-in capital has increased to RMB12.0 billion, enhancing its capital strength and capability to against potential credit risks and ensuring the sustainable development of the Company.

### **Declining high liquid asset level**

The liquidity risk of HZCP mainly comes from the mismatch between its on-balance sheet assets and off-balance sheet contingent liabilities. Liquid resources offer buffers to a financial guarantor to meet its unexpected liabilities. The level of liquid resources the Company possess declined over the past years due to the increase in less liquid fixed-income investments. We consider HZCP's liquid resources is relatively low with a liquidity ratio (measured by high liquid assets/total assets) of approximately 9.7% as of 30 June 2024.

The relatively low liquidity ratio of HZCP could be partially offset by its reliable liquid resources as well as its good access to capital. The Company has maintained a good relationship with large domestic banks. As of 30 June 2024, the Company had obtained total bank credit facilities of RMB20.8 billion, with an unutilized amount of RMB16.9 billion. HZCP also stepped into debt capital market in 2024. From January to October 2024, the Company issued 2 tranches of Private Placement Notes, raising RMB1.0 billion. With HZCP's good risk management ability and prudent business development strategy, we expect that the Company's existing liquid assets and available access to funding can cover the possible claims in the following 12-18 months.

### **External Support**

#### **High likelihood to receive government support when necessary**

We expect that HZCP is likely to receive support from the Henan Provincial Government when necessary. This expectation incorporates our considerations that the Company (1) is indirectly owned and controlled by the Henan Provincial Government; (2) has very high strategic importance in further optimizing financial environment in Henan Province; and (3) has solid supporting track record from the government.

HZCP has a very important position in the financial system of Henan Province. Being the first established credit enhancement company under the guidance of Henan SASAC, HZCP has a strong strategic and functional role in promoting the construction of risk sharing mechanisms and credit risk systems in capital market, which helps increase the proportion of direct financing, reduce financing costs, and enhance direct financing capabilities of enterprises, as well as promote the high-quality development of the bond market in Henan Province. A default of HZCP is expected to bring very high reputation risk to the Henan Provincial Government and material impacts on local financial market.

The Company has received solid track record of support from the Henan Provincial Government and its key shareholder in terms of capital injection and business expansion. We expected the importance of HZCP to the stability of the economic and financial environment in Henan Province will continue to increase along with its

ongoing expansion.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [Financial Guarantors \(January 2022\)](#).



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