Credit Opinion

28 January 2025

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

Shanghai Yixin Financing Lease Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Shanghai Yixin Financing Lease Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Summary

China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Shanghai Yixin Financing Lease Co., Ltd. ("Yixin Financing" or the "Company") to BBB_g from BBB_g-, reflecting its improving profitability and asset quality. The outlook is revised to stable after this rating upgrade.

The BBB_g long-term credit rating of Yixin Financing is underpinned by the Company's (1) strong franchise in auto financial leasing industry; (2) profession in internet auto 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 auto industry which is still challenged by the broad economic slowdown; (2) relatively high leverage; and (3) credit contagion risk related to large receivables from its affiliates.

The stable outlook on Yixin Financing's rating reflects our expectation that the Company's credit profile, such as strong franchise in the internet auto financial leasing industry and prudent risk management, will remain stable over the next 12 to 18 months.

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Rating Drivers

- Strong franchise in China's auto financial leasing industry
- Improving asset quality, but still vulnerable to changes in the broad economy
- Improving and moderate profitability supported by the growth of loan facilitation services
- Credit contagion risk related to large receivables 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

	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	21.4	25.6	36.7	38.0
Total Equity (RMB billion)	10.6	11.1	11.7	11.8
Total Revenue (RMB billion)	3.3	5.0	6.5	4.0
Net Profits (RMB million)	104.3	635.0	1,183.2	652.9
Pre-Tax Net Income/Average Assets (%)	0.3	3.0	4.3	4.8*
Return on Equity (%)	1.0	5.9	10.4	11.6*
Realizable Assets/Short-Term Debt (%)	28.1	25.7	20.7	19.7
Asset Impairment/Tangible Assets (%)	1.1	2.2	1.1	-
Problem Loans/Net Loans (%)	3.5	3.2	1.9	1.9

All ratios and figures are calculated using CCXAP's adjustments. Ratios with "*" are calculated by the amount annualized for the last twelve months ended 30 June 2024.

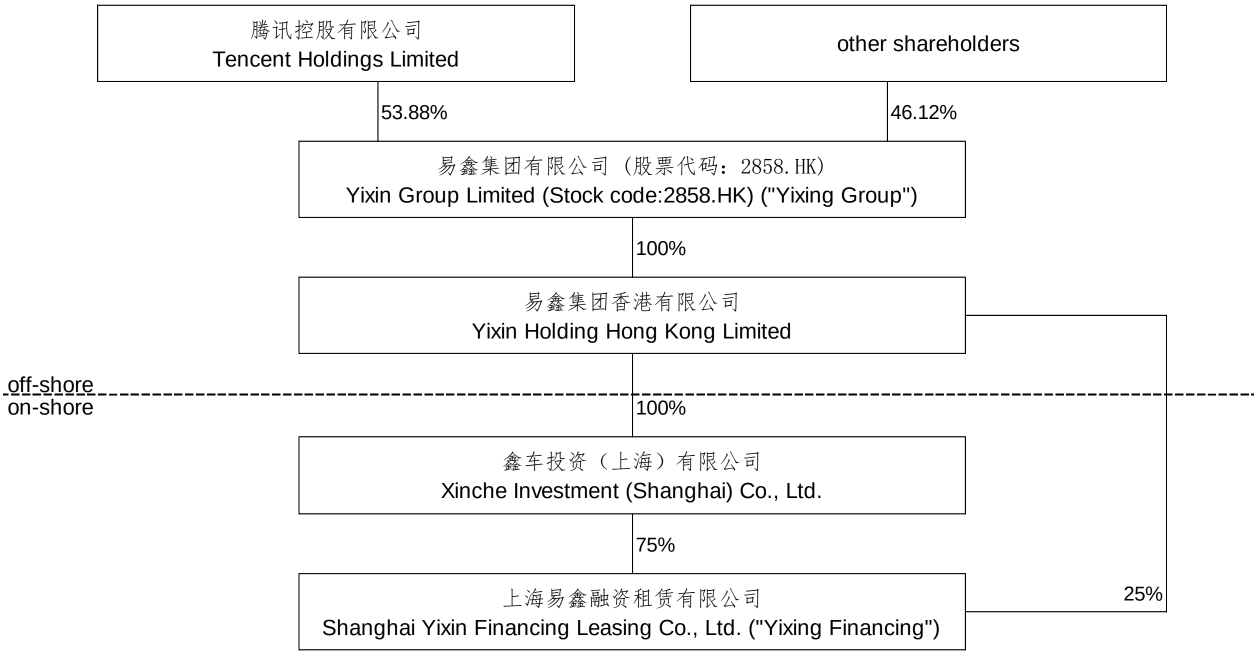
Source: Company data, CCXAP research

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). As of 6 December 2024, Tencent Holdings Limited and its subsidiaries are the largest shareholders of Yixin Group, with a total holding of 53.88% equity interest in the Company. At the same time, JD.com Investment Limited was no longer the second-largest shareholder after a decline in holding.

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 financial services for car buyers. As of 30 June 2024, 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 RMB38.0 billion and RMB11.8 billion, respectively.

Exhibit 1. Shareholder chart as of 6 December 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

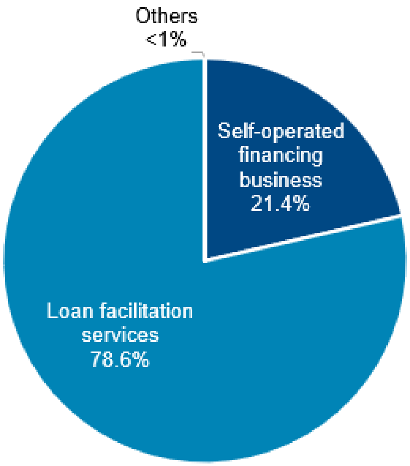
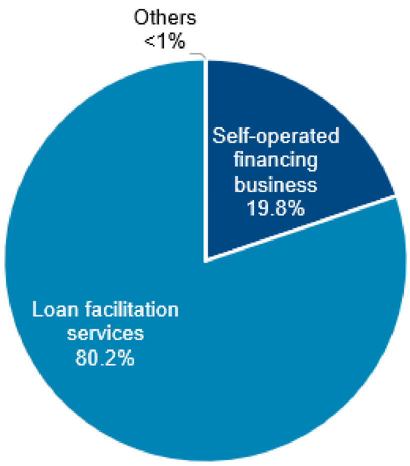


Exhibit 3. Gross profit structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Intensive competitive market environment and tightening regulations

Financial leasing is another financing solution besides obtaining loans from lending institutions. China's financial leasing industry has ended a rapid expansion development stage with tightened regulations and intense market competition. In 2024, the number of financial leasing companies continued to decline; contract balances showed negative growth. As at mid-2024, there were 8,671 financial leasing companies in China, a decrease of 180 from the end of the previous year; while the contract balance decreased by 0.6% from the end of the previous year to RMB5.6 trillion. With tightening regulation of the entire financial leasing industry, the regulator for commercial leasing companies including Yixin Financing has shifted to the China Banking and Insurance Regulatory Commission ("CBIRC") since April 2018. In June 2020, The CBIRC issued 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) for the regulation of commercial leasing companies and the local supervisory bureaus subsequently issued regulatory rules in succession. Although no new regulatory documents have been issued for commercial leasing companies by CBIRC, the regulatory requirements for commercial leasing companies are expected to become stricter and increasingly similar to those for financial leasing companies. 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 asset management and internal control standard and increases management pressure. We see that such impact is limited for 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 auto industry. In 2024, according to the China Association of Automobile Manufacturers (CAAM), supported by policy subsidies, price cutting and export demand, the number of vehicle production and sales increased by 3.7% and 4.5% YoY, respectively. We expect that the continuation of policy and stabilizing domestic macro economy will support the stable growth of the auto industry. In addition, the penetration rate of China's auto financing is still lower than that of the mature consumer markets. However, the competition in China's auto finance services market is increasingly fierce. There are banks and non-banking institutions including auto finance companies, financial leasing, consumer finance companies and Internet financial platforms providing financial services to car buyers. Under the impact of players with low capital costs such as banks, the intensified market competition may weaken the pricing margins or the asset quality of financial leasing companies, thereby constraining Yixin Financing's business expansion. Yixin Financing has engaged in the loan facilities business that mainly cooperated with banks, which has become the main source of revenue since 2022.

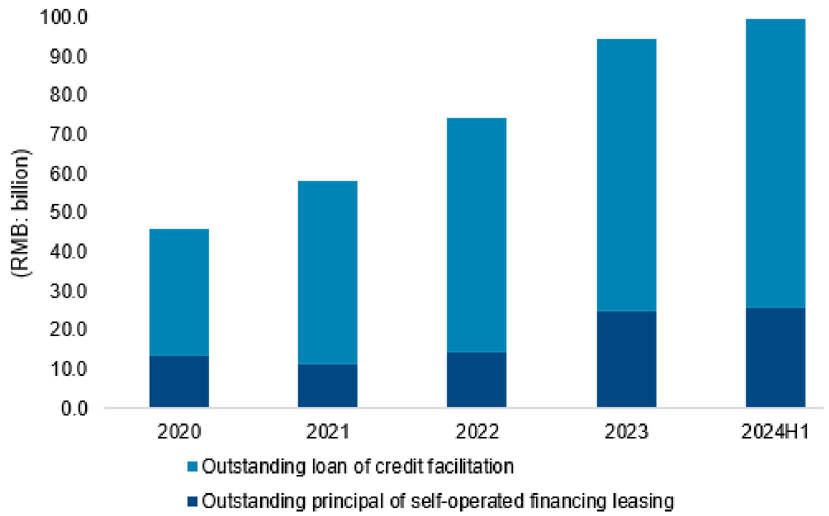
Strong franchise in China's auto financial leasing industry

Yixin Financing has a strong competitiveness in the sub-sector of auto financial leasing, with acquisition channel advantages and rich experience in the industry. It has cultivated the auto financial 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 10 million customer data, collection scorecards and auction disposal platforms. It also received support from shareholders for access to customer's credit data and building its assessment system, which generally is 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.

Yixin Financing has good channel layouts both online and offline, consisting of online channels, self-operated service teams and cooperation with original equipment manufacturers (“OEMs”). For the offline channels, as of mid-2024, the Company has established headquarters-to-headquarters cooperation with over 40 OEMs including GAC Toyota and Chang’an, 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 the financial leasing business and loan facilitation services. The managed assets of the loan facilitation business increased rapidly over the past three years, resulting in the managed assets from all platforms rising to around RMB99.6 billion as of mid-2024. 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 companies, while the downstream customers are mainly retail auto customers. The Company has established good and long-term relationships with multiple financial institutions, such as the Industrial and Commercial Bank of China and Shanghai Pudong Development Bank, which provide revolving credit facilities to the Company.

Exhibit 4. Managed assets of all platforms from 2020FY to 2024H1



Source: Company information, CCXAP research

Improving and moderate profitability supported by the growth of loan facilitation services

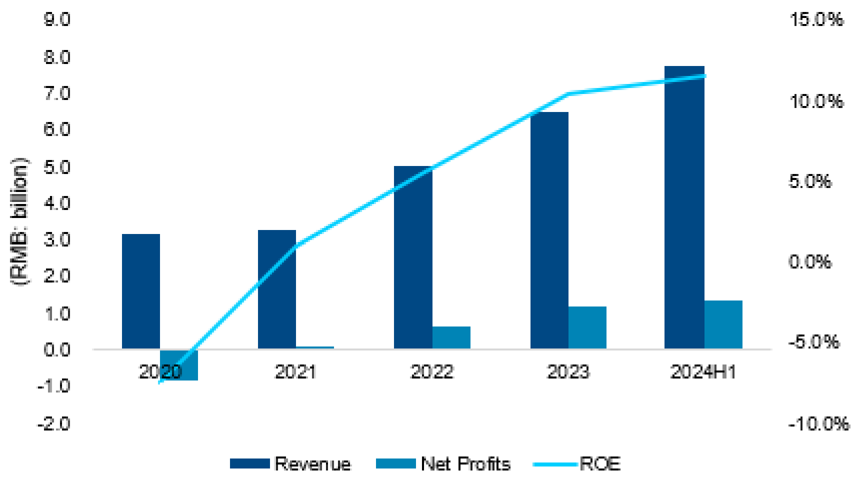
Since 2021, Yixin Financing has demonstrated an improvement in profitability. In 2023, the Company experienced a profitability improvement mainly due to the rapid expansion of its loan facilitation business, higher penetration in new-energy vehicles (“NEV”), and declined management fees and impairment loss. From 2021 to 2023, the average pre-tax net income/average asset ratio and the average return on equity (“ROE”) ratio increased to 2.5% and 5.8%, respectively.

In 2023, Yixin Financing’s net operating income maintained a fast growth, while the net operating income margin demonstrated a slight decline. In 2023 and the first half of 2024, the Company’s new business placement across all platforms achieved RMB65.9 billion and RMB31.4 billion, a YoY increase of 24.3% and 3.2%, respectively. The loan facilitation business is a major profit source for the Company, but gross profit margin has declined in recent years due to rising channel costs and commission fees. The Company's self-operated leasing business also experienced a sustained decline in net interest margin. From 2022 to 2023, the ratio of net self-operated leasing revenue to average leasing receivables decreased to 7.0% from 9.4%, but the interest expenses ratio (interest expenses/total debt) decreased to 3.7% from 4.6%.

In 2023, the Company's period expenses recorded a decrease of 18.7%, mainly due to the decrease in professional service fees and labor costs. Yixin Financing's impairment reserves demonstrated high volatility in recent years, which significantly affected the Company's net profit performance. From 2021 to 2023, the impairment loss was RMB185.9 million, RMB492.9 million and RMB313.6 million, respectively. The decline in 2023 was mainly due to a lower expected credit loss rate in the first stage of the expected credit loss model. As of mid-2024, the Company's provision coverage ratio for all platforms and self-operated leasing business was 160.8% and 163.9%, respectively. Yixin Financing's provision coverage ratio was low although it met the regulatory requirements, and there would be a big impact on the Company's profits if a large-scale overdue occurred.

In the first half of 2024, Yixin Financing's revenue and net profit were RMB4.0 billion and RMB652.9 million, a YoY growth of 45.5% and 33.3%, respectively. Its gross margin slightly improved mainly due to the rising gross margin of the loan facilitation sector, but spreads in the self-operated leasing business continued to shrink. The Company's business margin is still highly challenged by the intensive market competition. We expect the Company to a stable profitability, supported by its competition strength, revenue growth and good cost control, while the asset quality might be challenging to the profit.

Exhibit 5. Revenue, net profits and ROE from 2020FY to 2024H1



2024H1 figures are annualized for the last twelve months ended 30 June 2024.

Source: Company information, CCXAP research

Improving asset quality, but still vulnerable to changes in the broad economy

Yixin Financing's asset scale increased yearly from 2021 to 2024H1. As of mid-2024, the Company's total assets amounted to RMB38.0 billion and are composed of account receivables (11.6%) and leasing receivables (66.7%), which are generated from loan facilities and self-operated financial leasing business, respectively. Yixin Financing's account receivables grew fast with its business expansion, and the majority of its account period was less than one year. However, the concentration of receivables from the loan facilitation business is relatively high. As of mid-2024, the top ten counterparties' receivables accounted for 75.8% of account receivables; and the largest receivables, due by Minsheng Financial Leasing, accounted for 24.0% of account receivables.

For the self-operated financial leasing assets, Yixin Financing monitors asset performance and divides assets based on the number of overdue days. The Company's non-performing asset ratio has improved since 2021 but remains weak. As of the end of 2023, the Company's self-operated non-performing asset ratio (measured by receivables due over 90 days) improved by 1.3 percentage points from that in 2022 to 1.9%. As of mid-2024, the Company's non-performing asset ratio for all platforms and self-operated leasing business was 1.86% and 1.92%, respectively. A higher portion of managed assets from loan facilities business which are mainly provided to banks improved the overall asset quality.

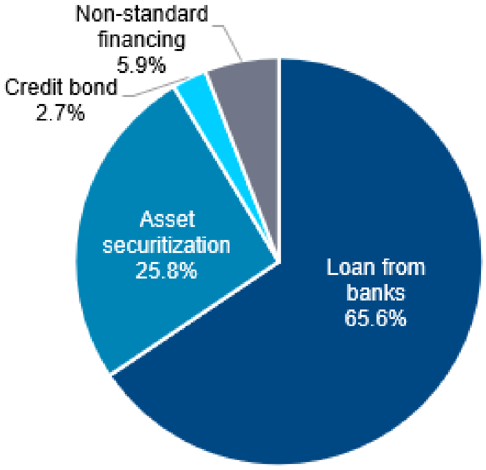
Yixin Financing's asset portfolio is highly concentrated on the Chinese auto market, which is vulnerable to changes in the broad economy. The fluctuating passenger car prices increase the pressure on asset quality. The Company has a moderate risk appetite with proper selection to trade off risk and return. 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. There were certain geographic concentrations with the South China region (including Shenzhen, Guangdong, Hainan and Guangxi) accounting for around 16.3% of new investment in 2023. The leasing of used cars remained relatively stable, which we believe poses a higher business risk compared to new cars. Meanwhile, as the market share of NEV increased, the Company's proportion of NEV also continued to grow and NEV became an important expansion direction. However, we take into account that risks such as unstable asset value and intensified market competition of NEV may put greater pressure on the Company.

Good access to diversified funding

Since 2021, Yixin Financing's equity has grown steadily mainly as profits are retained. However, its debt leverage has steadily increased with business expansion. The capital adequacy ratio (net capital/total assets) dropped to 32.0% at end-2023 from 43.2% at end-2022, and the debt/EBITDA ratio slightly increased to 16.0x from 15.3x during the same period. The Company's leverage multiples are in line with regulatory requirements. However, if including the assets under management of its loan facilitation business, its leverage multiples will be higher than most of its peers.

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 capital markets for fundraising as Yixin Group, its parent company, was listed on the Hong Kong Stock Exchange. In the first half of 2024, Yixin Financing raised around RMB3.6 billion on the onshore bond market through different products, including ABN, ABS and SCP. The coupon rates of ABN issued also demonstrated a downward trend. Loans from banks and asset securitization are the main types of total debt. Around 65.6% of its total debt was raised by bank loans, with a total borrowing amount of around RMB15.5 billion as of 30 June 2024.

Exhibit 6. Debt profile as of 30 June 2024



Source: Company information, CCXAP research

The Company maintains moderate asset-liability management but the duration mismatch enlarged. 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, there has been a longer-tenor trend in assets in recent years. As of the end of 2023 and mid-2024, the receivables within a year accounted for around 40% of total receivables, declining from around 48% at the end of 2022. In addition, 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-2024, the realizable assets/short-term debt ratio was 19.7%. At the same time, the restricted assets amounted to RMB12.1 billion, most of which were leasing receivable for ABS and ABN projects, accounting for 31.8% of total assets. The secured debt/tangible assets ratio was moderate at 33.5% as of year-end 2023.

The weak liquidity position could be partly mitigated by a good standby liquidity cushion, with available credit facilities of RMB3.1 billion as of 30 June 2024. The credit facilities were provided by diversified banks, including large domestic banks such as China Postal Savings Bank and China Bank of Communications.

Credit contagion risk related to large receivables 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 RMB67.8 billion as of 30 June 2024, compared to RMB47.6 billion as of 31 December 2023. As of mid-2024, Yixin Financing's receivables from its related parties, which were mainly used for contribution or capital increase to financing guarantee companies within Yixin Group, decreased to RMB3.0 billion from RMB4.3 billion from end-2022.

Rating Methodology

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

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