

CCXAP affirms the long-term credit rating of Suzhou Urban Investment Capital Holding Co., Ltd. at A_g⁻, with stable outlook; affirms its senior unsecured debt rating at A_g⁻.

Hong Kong, 30 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Suzhou Urban Investment Capital Holding Co., Ltd. (“SUIC” or the “Company”) at A_g⁻, with stable outlook; and affirmed its senior unsecured debt rating at A_g⁻.

The A_g⁻ long-term credit rating of SUIC 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.

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.

Rating Rationale

Credit Strengths

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

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

Fast-growing business scale that aligned with 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.

Good asset quality with relatively low risk appetite

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.

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 Company has received shareholder lending of around RMB1.9 billion from its parent company with costs of around 4%. 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.

Credit Challenges

Concentrated portfolio in Suzhou City and Jiangsu Province

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. In addition, most of the companies are concentrated within Jiangsu Province, which may expose SUIC to the risk of local economic and policy changes. Nevertheless, the concentration risk



could be largely mitigated by SUIC's good asset quality and the strong economic fundamental of Jiangsu province.

Unproven track record in equity and fund investments with uncertain return

SCID participates in fund and equity investment. The Company mostly invests in sectors of new materials, advanced manufacturing and modern health. SCID has a relatively limited history in existing records as most of the investments are still at the early stage of development and their investment returns are yet to be proven. Their investment returns are uncertain and most of the investments are expected to exit after 2025.

Moderate profitability 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.

Rating Outlook

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.

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.

Rating Methodology

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

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