

## **CCXAP affirms Far East Horizon Limited’s long-term credit rating at A<sub>g</sub>-, with stable outlook.**

Hong Kong, 8 February 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Far East Horizon Limited (“FE Horizon” or the “Company”) at A<sub>g</sub>-, with stable outlook.

The A<sub>g</sub>- long-term credit rating of Far East Horizon Limited (“FE Horizon” or the “Company”) is underpinned by the Company’s (1) leading market position as one of the largest financial leasing companies in China by total assets; (2) sound profitability with steady income growth; and (3) strong access to funding and good asset-liability management.

However, the rating is constrained by (1) decelerating industry growth due to tightening regulations; (2) board economic slowdown pressure that challenged asset quality; and (3) the Company’s high industry concentration of leasing portfolio.

We also consider the Company’s good operating track record in China and the moderate support from its key shareholder, namely, Sinochem Holdings Corporation Ltd. (“Sinochem Holdings”).

### **Corporate Profile**

FE Horizon was founded in 1991 and has been listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock Code: 3360.HK). The Company is one of leading financial leasing companies in China that provides all-round financial services to wide-ranging customers. It adopts a “finance + industry” business model that engages in financial leasing business and industrial operations. FE Horizon also specializes in providing customized financing solutions through equipment-based financial leasing and other services such as commercial factoring and related consultations. As of 30 June 2023, the Company had a total asset of RMB361.4 billion and a net asset of RMB56.5 billion. It had net interest-earning assets of RMB278.8 billion as of the same date.

### **Rating Rationale**

#### **Credit Strengths**

**Leading market position as one of the largest financial leasing companies in China.** FE Horizon has a strong market position in China’s financial leasing sector with reputable brand and long-standing client relationships. It ranks top five financial leasing companies in China by total assets and total equities (including those bank-supported leasing companies). As of 30 June 2023, the Company had a total asset of RMB361.4 billion and net interest-earning assets of RMB278.8 billion, growing from RMB335.9 billion and RMB258.4 billion at end-2021, respectively. The Company’s distinctive industrial understanding, supported by its “finance + industry” business strategy and industry expertise, also enables it to provide customized and integrated financial services to its clients.



**Sound profitability with steady income growth.** From 2020 to 2022, its total revenue increased to RMB36.7 billion from RMB29.2 billion, with a compound annual growth rate (“CAGR”) of 12.2%; while its revenue from industrial operation services increased to RMB13.2 billion from RMB8.8 billion over the same period, with a CAGR of 22.5%. FE Horizon has demonstrated a track record of stable profitability while growing scale. Its net profit increased to RMB6.6 billion in 2022 from RMB5.0 billion in 2020, with a CAGR of 14.5%. It had an average pre-tax net income/asset ratio of 3.0% and an average return on equity of 12.6% over the past three years.

**Strong access to funding.** FE Horizon has diversified funding channels with its listed status. It has low-cost and relatively stable borrowings from diversified banks and financial institutions. It also has strong ability to raise fund in onshore and offshore debt capital market. For example, the Company issued two tranches of free trade zone offshore bond (pearl bond) totaling RMB900 million in the first half of 2023. FE Horizon is very active in debt capital markets with outstanding bonds (including perpetual bonds) of approximately RMB92.3 billion as of 30 June 2023. It also has a good track record in accessing innovative financial products such as ABS and ABN.

**Moderate support from the key shareholder.** FE Horizon is one of the core investments of Sinochem Holdings, who is the key shareholder and indirectly owns 21.3% of FE Horizon's equity interest through its subsidiary. Sinochem Holdings is one of the four state-owned oil companies in China and is wholly owned by State Council SASAC. It plays a very high strategic role in the national development, particularly in energy, agriculture and chemicals.

### Credit Challenges

**Decelerating industry growth due to tightening regulations.** China's ongoing deleveraging campaign since 2016 and tightened scrutiny on leasing companies have led to a slowdown in the industry's growth. As of 30 September 2023, the balance of financing leasing contracts of China decreased by 1.6% to RMB5.8 trillion from RMB 5.9 trillion as of the end of the previous year. The decelerating market growth will also intensify market competition and weaken the pricing margins of finance companies, thereby restricting FE Horizon's business expansion. The regulatory change also requires a higher standard of management and internal control for financial leasing companies and increase their management pressure.

**Asset quality is challenged by lingering pandemic and increasing economic downward pressure.** The Company's asset quality is undermined by China's broad slowdown pressure, and there could be operating and financial challenges for the Company's clients, which in turn adversely affect its asset quality. In addition, FE Horizon has concentrated leasing asset portfolios in the urban public utility sector which is subject to higher policy and regulatory risk. Urban public utility accounted for 45.1% of its total net interest-earning assets, as of 30 June 2023.

## Rating Outlook

The stable outlook on FE Horizon's rating reflects our expectation that the Company will maintain its strong business position, risk management ability and liquidity over the next 12 to 18 months.

### 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; and (3) improves its asset quality and the sustainability of its profitability.

### What could downgrade the rating?

The rating could be downgraded if the Company (1) demonstrates a material decline in asset quality, such as surging problem assets and impairment losses; (2) shows a sharp decrease in profitability; or (3) has severely weakened asset-liability management and liquidity position.

## Rating Methodology

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

## Regulatory Disclosures

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