

Credit Opinion

8 October 2024

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

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Guangzhou Nanyue Fund Management Co., Ltd.

Surveillance credit rating report

CCXAP affirms Guangzhou Nanyue Fund Management Co., Ltd.'s long-term credit rating of BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Guangzhou Nanyue Fund Management Co., Ltd. ("GNFM" or the Company) is underpinned by the Company's (1) strong market position in private equity fund management of Zengcheng District; (2) stable development momentum in financial service businesses, with manageable business risk; and (3) low debt burden and sufficient liquidity.

However, the rating is constrained by (1) the Company's small income scale, with relatively weak and volatile profitability; and (2) large impact of policy changes on investment returns and payback period.

The rating also reflects our expectation of high likelihood of support from the Zengcheng District Government, given GNFM's (1) major ownership by the Zengcheng District Government and minor ownership by the Guangzhou Municipal Government; (2) relatively high strategic importance in the regional economic development; and (3) solid supporting track record from the government including capital injections.

The stable outlook on GNFM's rating reflects our expectation that the willingness and ability of the local government to provide support is unlikely to change, and that the Company will sustain its solid market position and financial profile in the next 12 to 18 months.

Rating Drivers

- High likelihood of government support from the Zengcheng District Government when needed
- Strong market position in private equity fund management of Zengcheng District
- Stable development momentum in financial service businesses, with manageable business risk
- Low debt burden and sufficient liquidity
- Small income scale, with relatively weak and volatile profitability
- Large impact of policy changes on investment returns and payback period

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of receiving government support increases such as greater strategic importance or more policy roles in Zengcheng District; and (2) the Company's standalone credit profile improves, such as improved profitability and asset quality, with stable asset growth and long track record.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of receiving government support decreases such as significantly decreasing ownership from the Zengcheng District; or (2) the Company's standalone credit profile worsens, such as deteriorated capital adequacy, sharp decrease in asset quality, or unexpected decline in liquidity.

Key Indicators

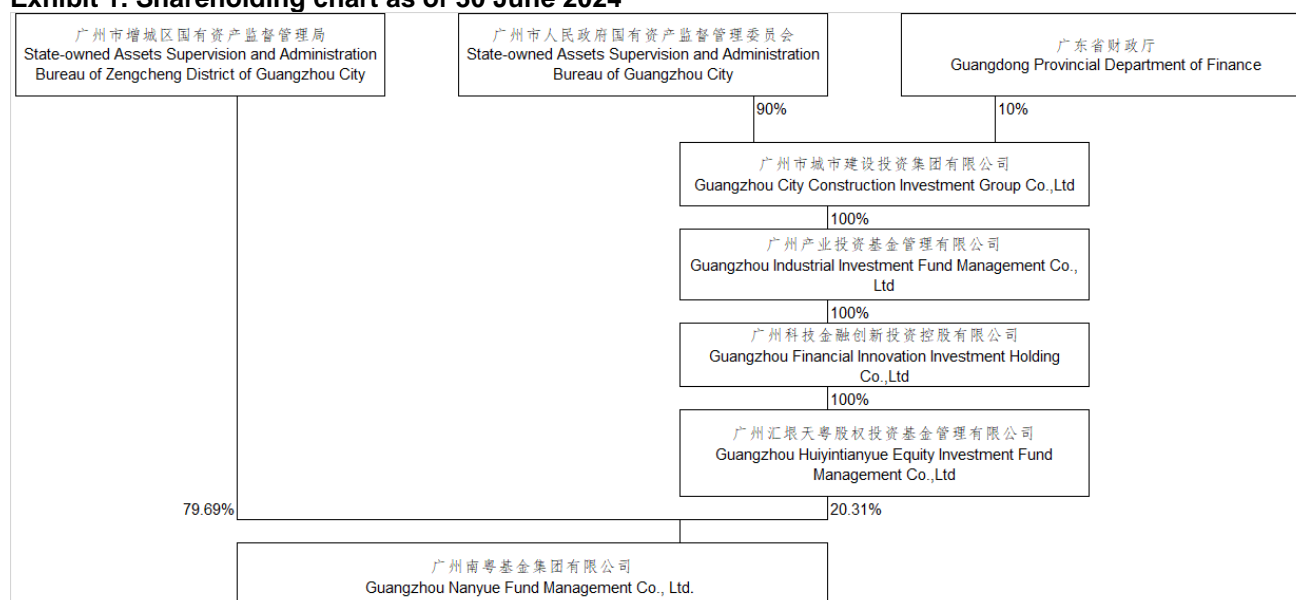
	2021FY	2022FY	2023FY
Total Assets (RMB million)	1,007.1	1,038.9	1,051.1
Total Equity (RMB million)	817.7	873.6	883.0
Total Revenue (RMB million)	76.0	53.5	53.9
Net Profits (RMB million)	39.6	18.9	25.7
Return on Average Equity (%)	5.0	2.2	3.2
Debt/EBITDA (X)	0.3	0.5	1.6
FFO/Total Debt (%)	-88.5	-74.7	-20.0

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

Source: Company data, CCXAP research

Corporate Profile

Founded in November 2014 with a registered capital of RMB460 million, GNFM is a state-owned innovative fund management platform jointly established by the Guangzhou Municipal Government and the Zengcheng District Government, with the aim to increase the leverage effect of government funds, activate social capital investment, promote industrial transformation, and promote economic development. GNFM primarily engages in private equity and venture capital fund management, and gradually expands to other financial services such as non-performing assets management, financial guarantee, and investment consultation. As of 30 June 2024, the State-owned Assets Supervision and Administration Bureau of Zengcheng District of Guangzhou City directly held 79.69% of the Company's shares and was its ultimate controlling shareholder.

Exhibit 1. Shareholding chart as of 30 June 2024

Source: Company information, CCXAP research

Rating Considerations

Strong market position in private equity fund management of Zengcheng District

Due to policy support and transformation of saving opinions, fund management industry experienced high-quality development over the past years. Guangdong Province has ranked first in economic development over the past 30 years, which provides excellent operating environment for fund management industry. As of 31 July 2024, Guangdong Province had 4,845 private equity fund managers registered with the Asset Management Association of China, with funds under management of more than 33,000 and asset under management (“AUM”) of over RMB3.2 trillion. Served as capital city and economic hub of Guangdong Province, Guangzhou City has advanced fund management industry and ranked second in terms of AUM in the province.

As the sole state-owned innovative fund management platform in Zengcheng District, Guangzhou City, GNFM has strong market position and unique advantages in private equity fund management of the region. The Company has successively established and managed 87 funds, including emerging industry funds, equity investment funds, urban development funds, and government guidance funds, with cumulative paid-in capital of RMB25.9 billion. Among those funds, 17 funds have already been withdrawn, with total amount of RMB17.3 billion. As of 30 June 2024, GNFM had 70 funds under management, with AUM of about RMB8.7 billion.

GNFM’s investment mainly focuses on hi-tech sector, such as new energy, new materials, semiconductors (including new displays) and bio-pharmaceutical. Besides, GNFM also focuses on high-quality pre-IPO projects. The Company sticks to the concept of value investment and focuses on industry leader with growth potential. Among all the invested companies, 6 enterprises have been listed and 6 enterprises plan to be listed. However, the management income fluctuates with AUM scale and investment performance. In 2023, the revenue from fund management amounted to RMB19.3 million, as compared with RMB20.2 million in 2022 and RMB16.8 million in 2021.

As an important fund manager of Zengcheng District, GNFM has initiated the establishment of Guangzhou East Center Development Investment Fund with other six enterprises, with total fund scale of RMB20 billion. The fund will invest in key industrial projects and the related infrastructure construction projects within Guangzhou

East Center. Given its strategic important in local industrial and economic development, we expect the Company can maintain its solid market position in the foreseeable future.

Stable development momentum in financial service businesses, with manageable business risk

Apart from fund management business, GNFM also engages in non-performing assets management and guarantee businesses. These businesses show stable development momentum, with increasing operating income. In addition, the Company has established risk control measures to minimize the business risks.

The non-performing assets management covers asset acquisition and asset disposal. The Company has resolved non-performing debt of RMB3.0 billion for the local government and state-owned enterprises, and has activated idle land assets with area of about 230,000 square meters. As of 30 June 2024, the Company has acquired 13 debt and asset packages, with total amount of RMB232.3 million. This business has provided supplemental profit to the Company, with investment profit increasing from RMB17.3 million in 2022 to RMB25.7 million in 2023.

The Company engaged in guarantee business in 2020, providing financing guarantees to small and medium enterprises in Zengcheng District to solve their financing issues. This business can be divided into financing guarantee and non-financing guarantee. Non-financing guarantee business mainly involves providing letter of guarantee to engineering construction companies and supply chain companies. As of 30 June 2024, the Company's total financing guaranteed amount was RMB284.4 million and total non-financing guaranteed amount was RMB3.0 billion, with guarantee compensation of RMB1.2 million. With rising guaranteed amount, the guarantee income also increases. The revenue from guarantee business significantly increased from RMB6.0 million in 2022 to RMB10.9 million in 2023. As the guarantee period for financing guarantees usually does not exceed 3 years and the amount of one single guarantee does not exceed RMB28 million, we expect the contingent liabilities risk is manageable.

Small income scale, with weak and volatile profitability

GNFM's fund management business had geographic concentration mainly in Zengcheng District and Guangzhou City. The Company's operating size and income scale is relatively small, with operating revenue of RMB53.9 million and investment income of RMB43.5 million in 2023. Due to the government support policy and strong market position, we believe GNFM's business scale will grow gradually in the next few years.

In addition, the Company's profitability is volatile as both equity investment and financial service businesses are vulnerable to macro-economic situation and local industrial development. Policy changes may affect the capital markets in China, and hence also have large impact on the Company's investment returns and payback period. In 2023, its return on average equity remained relatively weak at 3.2%, as compared with 2.2% in 2022 and 5.0% in 2021.

Low debt burden and sufficient liquidity

Due to its light-asset operation model, GNFM has low debt burden, which is positive to its credit rating. As the Company tapped into offshore loans, its total debt increased from RMB16.1 million in 2022 to RMB54.2 million in 2023, but its debt/EBITDA ratio remained low at 1.6x, indicating good debt servicing capability. As the Company plans to tap into onshore bond market, we believe that its debt burden will continue to increase for the next 12 to 18 months.

GNFM has sufficient liquidity to support its daily operation and debt and interest repayment. The Company has sufficient cash to cover its short-term debt, with cash to short-term debt ratio of 16.6x at mid-2024. In addition, the Company has sufficient standby liquidity. As of 30 June 2024, the Company has available credit facilities of RMB144.4 million.

External Support

High likelihood of government support from the Zengcheng District Government when needed

We expect GNFM has a high likelihood of receiving support from the Zengcheng District Government in times of need. This expectation incorporates our considerations of the Company's (1) major ownership by the Zengcheng District Government and minor ownership by the Guangzhou Municipal Government; (2) relatively high strategic importance in the regional economic development; and (3) solid supporting track record from the government including capital injections.

Serving as capital of Guangdong Province, Guangzhou City has very strong capacity to support local companies. As one of the fast-growing areas of Guangzhou City, GRP of Zengcheng District increased by 8.5% YoY to RMB145.3 billion in 2023. GNFM has a very important position among local SOEs in the Zengcheng District, behind city construction and industrial investment SOEs. As the first established fund management company in the region, GNFM has both importance in promoting industrial transformation and boosting social capital investment in order to accelerate the regional economic development.

The Company has close relationship with the local government and has solid track record of receiving support from local government. As the major shareholder of GNFM, the Zengcheng District government appointed most of the board members, with strong supervision on the Company's material decisions. Furthermore, the Zengcheng District Government has increased the Company's capital base by injecting cash of RMB200 million in 2020 and increased its registered capital by RMB180 million in 2023. We expect the local government's willingness to support the Company is high, which is unlikely to change in the near to medium term.

Rating Methodology

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

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