CCXAP assigns first-time long-term credit rating of A_g- to Suzhou Urban Investment Capital Holding Co., Ltd., with stable outlook; and assigns A_g- to its proposed Free Trade Zone CNY bonds

Hong Kong, 4 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") first-time assigns A_g- long-term credit rating of Suzhou Urban Investment Capital Holding Co., Ltd. ("SUIC"), with stable outlook; and assigns A_g- to the proposed Free Trade Zone CNY bonds to be issued by SUIC.

The bonds will constitute direct, unconditional, unsubordinated, and unsecured obligations of SUIC, which shall at all times rank pari passu with all the Company's other present and future unsecured and unsubordinated obligations. The Company intends to use the gross proceeds for general corporate purposes.

Corporate Profile

Established in 2018, SUIC is a key financial business arm of Suzhou Urban Construction & Investment Development (Group) Co., Ltd. ("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 2022, the Company reported total assets of RMB9.1 billion and net assets of RMB2.5 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 2022, SCID reported total assets of RMB90.3 billion and net assets of RMB59.2 billion.

Rating Rationale

Credit Strengths

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

SUIC is a key financial business arm of SCID and is directly and wholly owned by SCID, which is expected to have a strong capability to provide support to SUIC in times of need. SCID is one of the major local LIIFCs in Suzhou City and is wholly owned by Suzhou SASAC. In the first half of 2022, SCID provided a capital injection of RMB280 million to the Company in order to support its business development, which has also strengthened the Company's capital and financial profile. We also 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 follows 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 asset grew from RMB5.0 billion at end-2019 to RMB9.1 billion at end-2022H1.

Good asset quality

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 over its non-performing asset level to be zero and it has not incurred any non-performing asset since its establishment, as of 30 June 2022.

Low-cost and stable funding provided by SCID

SUIC's fundings are mainly provided by shareholder lending from SCID and bank loans guaranteed by SCID, which accounted for around 81% of its total debts as of 31 December 2021. The shareholder lending cost was about 4% which is close to SCID's average financing cost. Despite the Company's moderate liquidity position, we believe that it can be materially mitigated by the strong financial support from SCID and it will retain strong refinancing ability.

Credit Challenges

Concentrated portfolio

SUIC has demonstrated a high geographical and client concentration in its portfolio. The exposure to the top ten clients in factoring accounted for 98% of its total equity and the top ten clients in financial leasing service accounted for 67% 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 investment track record with uncertain investment 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 investment are expected to exit until 2025.

Moderate profitability with intensive market competition

The profitability of SCID was moderate with intensive market competition. Its net profit increased from RMB119.7 million in 2019 to RMB147.3 million in 2021, with a CAGR of 9.1%.

The geographic shift to Suzhou City may further increase local market competition, thus driving down SCID's interest spread and profitability. Its return on asset ratio (pre-tax income on average assets) and return on average equity ratio decreased by 1.3 and 1.9 percentage points to 2.9% and 6.9%, respectively, from that of 2019.

Rating Outlook

The stable outlook on SUIC's rating reflects our expectation that the Company will maintain its strategic role in the development of 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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Vincent Tong
Assistant Director of Credit Ratings
+852-2860 7125
vincent_tong@ccxap.com

Elle Hu
Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656