CCXAP assigns the first-time long-term credit rating of A_g- to China Kangfu International Leasing Co., Ltd., with stable outlook.

Hong Kong, 20 August 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time long-term credit rating of A_g- to China Kangfu International Leasing Co., Ltd. ("Kangfu Leasing" or the "Company"), with stable outlook.

The A_g- long-term credit rating of Kangfu Leasing is underpinned by the Company's (1) good business synergy with shareholders, supporting its business growth; (2) proven risk management and control with a relatively low risk appetite; and (3) diversified funding channels and good financial flexibility.

However, the rating is constrained by (1) weakened operating environment from tightening regulations and economic slowdown; (2) the Company's asset concentrations in the new energy industry; and (3) increasing exposure to clean energy investment which may challenge its management capacity and heighten its debt leverage.

The rating also reflects the likelihood of support from its two key shareholders, namely, State Power Investment Corporation Limited ("SPIC") and Sany Group Co., Ltd., ("Sany Group"), which is based on the Company's (1) strategic position as one of the key financial leasing platforms for SPIC and Sany Group; (2) track record of receiving operational and financial support from key shareholders; (3) certain reputation risk to its shareholders.

Corporate Profile

Founded in 1988 and registered in Beijing, Kangfu Leasing is a leasing company that provides financial services to different customers, covering direct lease as well as sale and lease back. Since 2021, the Company has promoted a transformation strategy, namely, the "finance + industry" model by integrating the clean energy investment business and financial leasing business. The Company was listed on the National Equities Exchange and Quotations in September 2015. As of 31 December 2023, the Company reported total assets of RMB39.6 billion and net assets of RMB33.3 billion.

Diantou Ronghe New Energy Development Co., Ltd. ("Diantou Ronghe") is the largest shareholder of Kangfu Leasing, holding 20.05% shares of Kangfu Leasing. Diantou Ronghe is an associate of SPIC that specializing in new energy investment and financing services sector. SPIC held 35.46% of Diantou Ronghe's shares as of 31 December 2023.

Rating Rationale

Credit Strengths

Good business synergy with shareholders, supporting its business growth. Kangfu Leasing's shareholders, including SPIC and Sany Group, are one of the market leaders in their specific sector in China. The Company has developed a strong customer base from both the upstream and downstream sides of its shareholders and shareholders' referrals, enabling it to maintain a stable business portfolio scale even in an unfavorable market environment. Kangfu Leasing's shareholder background also supported it to implement its "finance + industry" transformative strategy in 2021. With ongoing business growth, Kangfu Leasing reported total assets of RMB39.6 billion as of the end of 2023, increasing by 64.5% from that of the end of 2021.

Proven risk management and control with a relatively low risk appetite. Kangfu Leasing's asset quality is stable with its prudent client selection and focused industry experience. Its nonperforming asset ratio for its financial leasing business decreased from 1.8% at end-2020 to 1.4% at end-2023, supported by its sector shift to clean energy and enhanced risk management. The Company also reduces the exposure to non-shareholder business to lower its credit risk. For example, it stopped new financial leasing in the downside sectors and increased the investments in shareholder business in 2021.

Diversified funding channels and good financial flexibility. Given its strong shareholder background, the Company has diversified funding channels with good capacity to acquire long-term funding such as bond issuances and long-term bank borrowings. The Company maintains large amounts of credit lines from various banks and a low secured debt-to-tangible assets ratio. Diantou Ronghe has a track record of supporting the Company's funding in the form of direct shareholder loans. The Company also has an established presence in onshore debt capital markets.

Likelihood of support from the key shareholders. Kangfu Leasing plays an important role in promoting the business development of clean energy for SPIC and construction machinery for Sany Group through the integration of finance and industry. The Company has a proven track record of receiving various support from SPIC and Sany Group. For example, SPIC's strong capacity to acquire and dispose power plants supports the Company's disposal of nonperforming assets in the clean energy sector. Sany Group and its related companies provide credit enhancement measures for its leasing business with the Company. We expect that the SPIC and Sany Group have strong capacity and moderate willingness to support the Company in times of need.

Credit Challenges

Weakened operating environment from tightening regulations and economic slowdown. The financing leasing market in China has been under a contraction since 2020 owing to tightening policies and unfavorable market environment. As of 31 March 2024, the outstanding financial leasing contracts in China decreased by 0.4% to RMB5.6 trillion compared to that at end-2023. The tightening regulations, in the long run, is expected to improve the regulatory framework for the industry, strengthen the supervision of leasing companies, and reduce the chance of market crunches. However, the decelerating market growth will also intensify market competition and weaken the pricing margins of leasing companies, thereby restricting Kangfu Leasing's business expansion.

High asset concentration in clean energy sector. Kangfu Leasing has large and concentrated exposures to the clean energy sector. The clean energy sector represented over

60% of its outstanding financial lease assets as of 31 December 2023. Together with the large investment in clean energy investment through Fuhong, it exposed Kangfu Leasing to higher asset concentration risk. There could be a potentially large impact on its overall asset quality metrics in the event of the industry sluggish. In addition, the largest single client accounted for 28.2% of its net assets and the top 10 clients accounted for 125.0% of its net assets, as of the end of 2023.

Increasing exposure to clean energy investment which may challenge its management capacity and heighten its debt leverage. Financial leasing is a capital-intensive industry and new energy investment is a heavy asset business, leading Kangfu Leasing to have a higher debt leverage. Its leverage, as measured by total debt to total capital, was 81.5% at end-2023 from 78.8% at end-2021. The Company's equity base is mainly replenished by endogenous profit retention. However, there are challenges to the Company's operational efficiency as electricity prices of new energy projects become market-oriented.

Rating Outlook

The stable outlook on Kangfu Leasing's rating reflects our expectation that the Company will maintain its stable business position and financial metrics over the next 12 to 18 months; and the support from its key shareholders is unlikely to change during the period.

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 as well as its asset quality; or (3) has a stronger capital position and profitability.

What could downgrade the rating?

The rating could be downgraded if (1) key shareholders' willingness and capacity to provide support decreases; or (2) the Company's asset quality materially deteriorates, such as surging problem assets and impairment losses, capital position weakens significantly because of aggressive asset expansion, profitability declines obviously, or asset-liability management and liquidity position weaken severely.

Rating Methodology

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

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