

CCXAP assigns first-time long-term credit rating of A_g- to Zhongyuan Aviation Leasing Co., Ltd., with stable outlook

Hong Kong, 21 August 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of A_g- to Zhongyuan Aviation Leasing Co., Ltd. (“ZYAL” or the “Company”), with stable outlook.

The A_g- long-term credit rating of ZYAL is underpinned by the Company’s (1) solid leasing business development in Henan Province; (2) stable asset quality; and (3) good capital adequacy. However, the rating is constrained by (1) weakened operating environment for leasing companies due to tightening regulations and economic slowdown; (2) ZYAL’s small operating scale and modest profitability; and (3) concentrated asset portfolio.

The rating also reflects our expectation of a high likelihood of support from its key shareholder, namely, Zhongyuan Asset Management Co., Ltd. (“Zhongyuan AMC”), given the Company’s (1) strong strategic status as the core leasing subsidiary of Zhongyuan AMC; (2) moderate operational and management linkage with Zhongyuan AMC; and (3) high reputation risk to Zhongyuan AMC. We believe that Zhongyuan AMC has strong capacity to support as the largest local AMC in Henan Province which is ultimately controlled by the Finance Department of Henan Province.

Corporate Profile

Founded in 2016, ZYAL is a leasing company located in Henan Province that dedicates to support the development of the local aviation industry. The Company adopts a “finance + industry” business development model and provides comprehensive financing services to its clients, covering operating and financial leasing, commercial factoring, and residual value processing. With years of experience and its professional team specializing in aircraft business, ZYAL has gained a good market position in Henan Province. As of end-2023, the Company had a total asset of RMB7.1 billion and a net asset of RMB2.5 billion. Zhongyuan AMC is the largest shareholder of ZYAL that directly held 51% of the Company’s shares, as of end-2023.

Rating Rationale

Credit Strengths

High likelihood of support from Zhongyuan AMC. We expect ZYAL to receive support from Zhongyuan AMC in times of need. This expectation incorporates our considerations of the Company’s (1) status as the core leasing subsidiary of Zhongyuan AMC; (2) moderate operational and management linkage with Zhongyuan AMC; and (3) high reputation risk to Zhongyuan AMC.

Solid leasing business development in Henan Province. ZYAL has established a solid market position in Henan Province as the first comprehensive financial leasing company with geographic advantages. It dedicates to support the development of the local aviation industry



development and has played an important role in the finance resources of Zhengzhou Airport Economic Comprehensive Experimental Zone's construction and development. Given its strong state-owned shareholder background and its own business resources, the Company has developed its market competitiveness in both operating leasing and financial leasing businesses in Henan Province.

Stable asset quality. ZYAL's asset quality is relatively good. As of end-2023, the Company had no non-performing asset for its financial leasing and factoring businesses. The special mention assets only accounted for 1.7% of its outstanding financial leasing assets. The financial leasing assets included a wide range of items, including machinery and equipment, automobiles, and buses.

Good capital adequacy. The Company has a good capital adequacy because of capital injection from its shareholders. Its capital base increased to RMB2.5 billion as of end-2023 from RMB1.9 billion as of end-2021. The capital adequacy ratio, calculated as net capital to total assets, was recorded at 35.0% as of end-2023.

Credit Challenges

Weakened operating environment for leasing companies due to tightening regulations and economic slowdown. The business development of ZYAL is closely related to China's economic changes and leasing industry. The financial leasing market in China is under a contraction since 2020 owing to tightening policies and unfavorable market environment, which is expected to further intensify market competition. In addition, the main operating indicators of the civil aviation industry such as total transport turnover and passenger turnover have declined significantly during the pandemic, restricting ZYAL from business expansion and giving pressure on its customers.

Small operating scale and modest profitability. ZYAL's asset and capital scale remain relatively small, which may disadvantage its ability to withstand the changing environment and grab new business opportunities. The profitability of ZYAL was also modest as seen by its low level of average ROE ratio of 7.8% over the past three years. The limited earnings generation may reduce its buffer in a stressed market environment or to stay competitive with other contenders.

Concentrated asset portfolio. ZYAL has demonstrated geographical and sector concentration its financial leasing portfolio. More than 90% of financial leasing assets are concentrated within Henan Province, which may expose ZYAL to the risk of economic and policy changes of a single sector or region. ZYAL also has concentrated financial leasing asset portfolios in urban public utility projects, such as government-enterprise cooperation sector, which is subject to higher policy and regulatory risk.

Rating Outlook

The stable outlook on ZYAL's rating reflects our expectation that the Company, as the core leasing subsidiary role in the group, will remain its operational linkage with Zhongyuan AMC.



We also expect ZYAL will sustain its business position and financial profile over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from Zhongyuan AMC is expected to be stronger such as increase in legal or operational linkage with Zhongyuan AMC; (2) the Company materially improves its profitability and capital base; and (3) the Company further diversifies its asset portfolio with enhanced quality.

What could downgrade the rating?

The rating could be downgraded if (1) the credit quality of Zhongyuan AMC deteriorates or shareholder support is expected to be weakened; (2) the Company demonstrates a material decline in asset quality, such as surging problem assets and impairment losses; or (3) the Company 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

CCXAP's Rating Symbols and Definitions are available on its website at:

http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

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

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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