

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

Hong Kong, 8 October 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Guangzhou Nanyue Fund Management Co., Ltd. (“GNFM” or the “Company”) at BBB_g, with stable outlook.

The BBB_g long-term credit rating of GNFM 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.

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.

Rating Rationale

Credit Strengths

Strong market position in private equity fund management of Zengcheng District. 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.

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.

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. 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.

Credit Challenges

Small income scale, with relatively weak and volatile profitability. 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 2023, its return on average equity remained relatively weak at 3.2%, as compared with 2.2% in 2022 and 5.0% in 2021.

Large impact of policy changes on investment returns and payback period. 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.

Rating Outlook

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.

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.

Rating Methodology

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

Regulatory Disclosures

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

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