

## Credit Opinion

17 October 2024

Ratings	
Category	Financial Institution
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> +
Outlook	Stable

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## Sichuan Jinyu Financing Guarantee Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>+ to Sichuan Jinyu Financing Guarantee Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>+ long-term credit rating of Sichuan Jinyu Financing Guarantee Co., Ltd. ("JYFG" or the "Company") is underpinned by the Company's (1) solid market position in bond guarantee business in Sichuan Province; (2) sufficient capital adequacy supported by its state-owned enterprise ("SOE") background; and (3) high level of liquid resources.

However, the rating is constrained by the Company's (1) industry and geographic concentration of guarantee portfolio; (2) relatively large historical claims with long recovery period; and (3) business growth and profitability pressure due to intensive market competition and lowering interest rate.

The rating also incorporates our expectation that the Company has a high likelihood of support from the local government and its parent company, given its (1) ultimate control by the Sichuan Provincial Government; (2) strategic importance in further optimizing financial environment in Sichuan Province; and (3) solid track record of business and financial support.

The stable outlook on JYFG's rating reflects our expectation that the willingness and ability of Sichuan Provincial Government to provide support is unlikely to change. We also expect the Company to sustain its competitive market position and solid financial profile in the next 12 to 18 months.

## Rating Drivers

- Solid market position in guarantee business in Sichuan Province
- Relatively large historical claims with long recovery period
- Stable profitability but pressured by market competition and lowering interest rate
- Sufficient capital adequacy and high level of liquid resources
- High likelihood of support from the parent company and the Sichuan Provincial Government

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of receiving government or parental support increases such as higher policy roles or greater strategic importance in Sichuan Province; and (2) the Company's institution profile has significantly strengthened such as improved profitability or asset quality.

### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of receiving government or parental support decreases such as weakened strategic importance in Sichuan Province; or (2) the Company's institution profile deteriorates, such as lower coverage in potential claims or sharp decrease in liquid assets.

### Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	6.5	6.9	7.2	7.1
Total Equity (RMB billion)	5.3	5.4	5.6	5.5
Net Profit (RMB billion)	0.2	0.2	0.2	0.1
Return on Equity (%)	3.5	4.1	4.4	4.6
Accumulated Claim Ratio (%)	3.6	3.1	2.7	2.3
Risk Reserve/Outstanding Guarantees (%)	3.8	4.1	4.9	5.6
High Liquid Assets/Total Assets (%)	59.9	59.7	64.1	53.7

All ratios and figures are calculated using CCXAP's adjustments. Ratios in 2024H1 are calculated using annualized data.

Source: Company data, CCXAP research

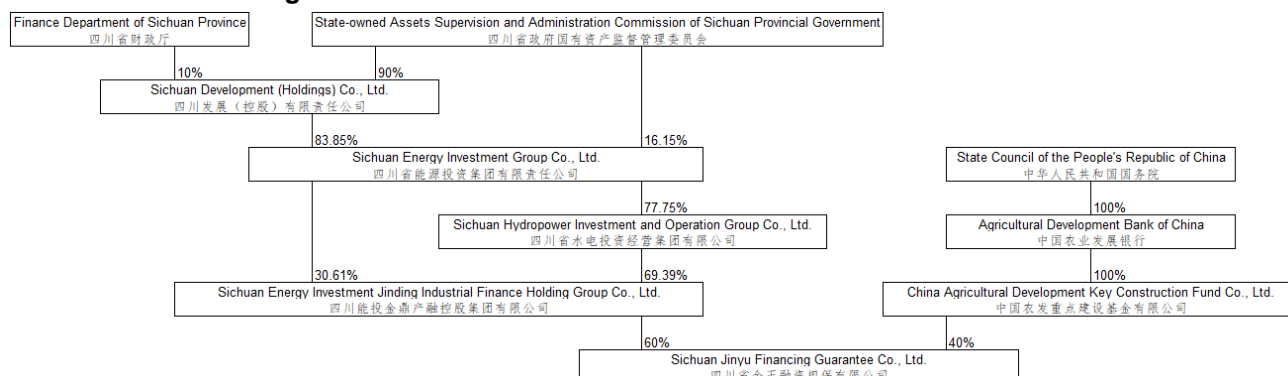
## Corporate Profile

Founded in 2007, JYFG is one of the major guarantee companies in Sichuan Province. It has an important role in facilitating the development of regional direct finance, enhancing the financing abilities of local enterprises, and optimizing the financial environment of Sichuan Province. JYFG mainly provides traditional guarantee services to standardized bond market products, such as Medium-term Notes (MTNs) and Corporate Bonds. The Company also offers loan financing and non-financing guarantee services. As of 30 June 2024, the Company had a total asset of RMB7.1 billion and a net asset of RMB5.5 billion.

JYFG is 60% owned by Sichuan Energy Investment Jinding Industrial Finance Holding Group Co., Ltd. ("Jinding Group") and 40% owned by China Agricultural Development Key Construction Fund Co., Ltd. ("Agricultural Development Fund"). Jinding Group is the financial arm of Sichuan Energy Investment Group Co., Ltd ("Sichuan Energy"). Sichuan Energy is a leading enterprise in the energy and chemical industry of Sichuan Province that ultimately controlled by the State-owned Assets Supervision and Administration Commission of Sichuan

Provincial Government ("Sichuan SASAC"). It is also a Nationally Recognized Enterprise Technology Center, and ranked among the "Top 500 Chinese Enterprises" for 10 consecutive years.

### Exhibit 1. Shareholding chart as of 30 June 2024



Source: Company information, CCXAP research

## Rating Considerations

### Operating Environment

JYFG is domiciled in mainland China and most of its revenue is generated in Sichuan Province. JYFG's macro profile is **Medium**, which reflects Sichuan Province's (1) stable economic growth and fiscal strength, and (2) improving operating environment for financial guarantors. However, the macro profile is undermined by (1) relatively high competitiveness in China's financial guaranty sector, which drive lower rates of underwritten premium; and (2) weakened credit condition, which may increase the industry's vulnerability.

China has strong economic fundamentals and institutional strength. China's strong institutional strength is reflected in the long-term stability of its political environment and the high efficiency of its government. In addition, it is the second-largest economy in the world, with large population and economic base, as well as stable economic growth. China demonstrated a good, albeit moderating, economic recovery since the pandemic. In 2023, China's GDP grew 5.2% YoY to RMB126.1 trillion, supported by its border reopening and the recovery in production and domestic demand. Nevertheless, the economy remains under challenges given the still moderate domestic growth. GDP growth recorded 4.7% YoY in the second quarter of 2024.

Sichuan Province has a relatively stable economic growth, providing a good support for the development of the financial industry in Sichuan Province. It has a strategic position as an important transportation and communication hub connecting southwest, northwest and central regions of China. With the good transportation and location advantages, Sichuan Province's economic strength improved steadily with GRP increasing from RMB5.4 trillion to RMB6.0 trillion from 2021 to 2023, ranking 5<sup>th</sup> among all provinces in China in 2023. Sichuan Provincial Government's fiscal strength also improved along with the economic growth. In 2023, the general public budgetary revenue amounted to RMB552.9 billion. Sichuan Province has the largest number of financial institutions in western region of China and the financial activities has grown steadily in the province.

The operating environment for Chinese financial guarantors is improving with a clearer regulatory framework and supportive government stance. In 2017, the State Council issued the "Regulation on the Supervision and Administration of Financing Guarantee Companies" (《融资担保公司监督管理条例》) and the National Financial Regulatory Administration released the supplementary provisions in 2018 and 2019, to clearly define the responsibility of the supervisory bodies and related regulatory metrics. In addition, the government has highly promoted financial guarantors in the provision of the finance of small and medium enterprises ("SMEs")

and rural entities.

However, the Chinese financial guarantee industry faces a relatively high level of competitive rivalry. This may put higher pricing pressure on premium rates and erode financial guarantors' profitability in the long run. The narrowed credit spreads in China's broad capital market, given the easing of monetary policy, also intensify competition among financial guarantors and drive down their profitability. In addition, the weakened credit condition, such as increasing default events and limited financing channels in particular industries, may increase credit costs for financial guarantors. Nevertheless, we believe that the market accumulated claim ratio will remain flat for the next 12 to 18 months, backed by China's supportive monetary policy and sufficient broad market liquidity.

## **Institutional Profile**

### **Solid market position in guarantee business in Sichuan Province**

Establishment in 2007, JYFG has a solid market position in Sichuan Province as one of the top provincial guarantee companies. It dedicates to support the development of regional financial market, enhance the financing abilities of local enterprises, and optimize the financial environment of Sichuan Province. It also has a policy role in assisting the government to build a risk sharing mechanism in the province and broaden financing channels for local enterprises with lowering funding costs.

JYFG has expanded rapidly in business scale supported by its strong local advantage and established brand name. As of 30 June 2024, the Company had a total outstanding guarantees of RMB29.7 billion and outstanding guarantee liabilities of RMB22.0 billion, increasing by around 30% from those at end-2021. The Company has diverse product offerings to satisfy its customer's need, covering from direct and indirect financing guarantees to non-financial guarantees such as tender, performance and advance payment guarantees. Since 2018, JYFG has adjusted its business strategy and formed a "3+1" business model covering bond guarantee, loan guarantee, non-financing guarantee and investment business. As of 30 June 2024, financial guarantees accounted for 91.6% of its outstanding guarantees and non-financial guarantees accounted for 8.4%. The bond guarantees represented over 80% of its outstanding guarantees, as of the same date.

JYFG also cooperates with large domestic banks to carry out policy-driven loan guarantee business, which is encouraged by the central government and targeted to support SMEs' financing activities. The guarantee risk will be shared by guarantee companies, national guarantee fund, provincial re-guarantee company, and partnered commercial bank at a ratio of 4:2:2:2. For example, JYFG has partnered with Postal Savings Bank of China Co., Ltd. to undertake "Shudan Quick Loan" ("蜀担快贷"). The business risk is manageable as the product sets a maximum claim rate of up to 3% and JYFG only undertakes 40% of the risk exposure, which means that the ultimate cap of the claim rate is 1.2%. Such business also receives government subsidy support, albeit subject to changes in government policy. As of 30 June 2024, JYFG had outstanding guarantees of RMB571 million for its policy-driven guarantee business.

### **Relatively large historical claims with long recovery period**

JYFG's asset quality is moderate as seen by its relatively high cumulative claim ratio of 2.3% as of 30 June 2024. This mainly arose from the loan guarantees provided to private-owned SMEs in the early stage of the Company's development, which experienced claims because of the financial distress on some SMEs, particularly in manufacturing and construction sectors. There has been no claim on the Company's bond guarantee business. As of 30 June 2024, the Company had claim receivables of RMB565 million. With limited growth in its loan guarantee business and the expiration of the risky projects, the annual new claim amount has

been decreasing to RMB34 million in 2023 from RMB161 million in 2021, while the recovery rate increased to 45.4% from 37.6% over the same period.

JYFG's asset quality is also constrained by its concentrated and long tenor guarantee portfolio. The Company has demonstrated geographical and sector concentration in its guarantee asset portfolio, which may expose JYFG to the risk of economic and policy changes in a single sector or region. It has concentrated guarantee exposure in Sichuan Province. As of 30 June 2024, JYFG's outstanding guaranteed amount in Sichuan Province was RMB23.3 billion, accounting for 78.6% of the Company's total outstanding guarantees. JYFG also has concentrated guarantee portfolios in local SOEs, which is subject to higher policy and regulatory risk, especially during the increasing downward pressure on China's economy and the tightening financing environment on some of the local SOEs. As of 30 June 2024, leasing and business services accounted for 62.9% of its total guaranteed liabilities, followed by construction sector (11.1%), and water conservancy, environment & public facilities management sector (6.4%). Apart from that, the guarantee period of the Company's guarantee portfolio is generally long. More than 80% of its the guarantee period are over 3 years.

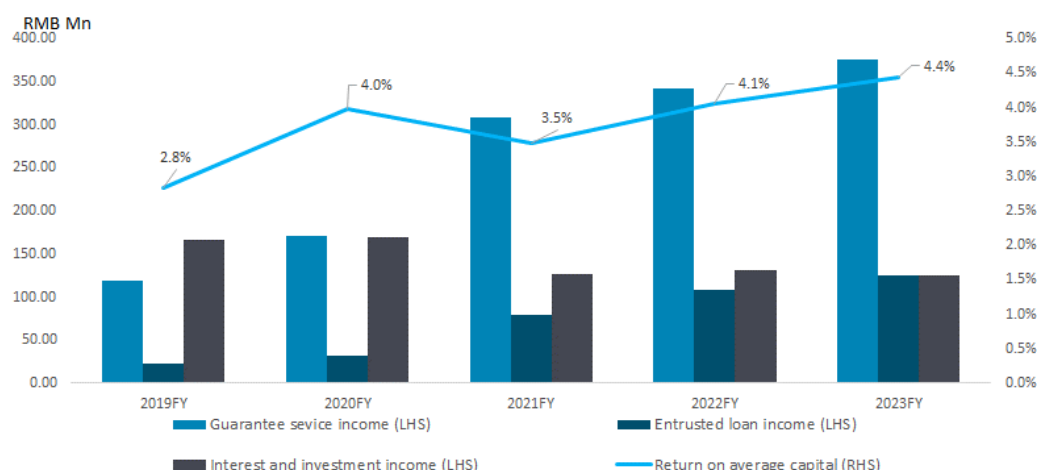
The Company's guarantee portfolio is mainly made up of guarantees on traditional products in the domestic market such as MTNs, company bonds, and corporate bonds, most of which are simple and have higher information transparency that lowers the risk of misvaluation. In addition, such client concentrated risk could be partly mitigated by JYFG's high-quality client base and sufficient risk control measures. Most of the clients are local SOEs that are backed by government or favorable policy. These clients are more likely to receive solid government support in stressed scenarios. Apart from that, the Company also undertakes necessary risk mitigation measures. Many clients are required to provide third-party guarantees or asset pledges to reduce the potential losses.

#### **Stable profitability but pressured by market competition and lowering interest rate**

JYFG has demonstrated stable profitability over the past five years. From 2021 to 2023, it had an average return on equity ("ROE") of around 4.0%, with a five-year Sharpe ratio of 606.8% (exceeding the reasonable level of 100%). Benefiting from the growth in bond guarantee business, the Company's total revenue increased from RMB140.7 million in 2019 to RMB502.2 million in 2023, and the net profit of the Company increased from RMB146.4 million to RMB245.2 million over the same period. However, JYFG's business development and profitability are closely linked with local economic and policy changes. Guarantors face increasing competition under the lowering interest environment and the sufficient market liquidity in China, which in turn compress their guarantee fee rate.

The Company has established a mechanism for its provision reserve to against contingent risks, including risk provision for guarantee liability and unearned premium risk provision. With the growth of its guarantee business, the Company's provision reserve has continued to increase in recent years. As of 30 June 2024, the Company had provision reserve of RMB1.2 billion, and provision to outstanding guarantee liability ratio at approximately 5.6%, indicating strong ability to withstand contingent liabilities.

## Exhibit 2. JYFG's revenue structure from 2019 to 2023



Source: Company information, CCXAP research

JYFG's investment business also helps support its bottom-line profitability, mainly including bank deposits, fixed income investments such as bonds, and entrusted loans. The Company mostly invests in the bonds related to its guarantee business and provides short-term entrusted loans to clients to support their liquidity. The average interest rates of the entrusted loans are generally around 9%. The Company's entrusted loan interest income and investment gains were recorded at RMB124.9 million and RMB7.4 million in 2023, respectively. However, the tightening investment income, coupled with narrowed credit spreads in the capital market, may hinder its profitability. We expect JYFG to expand its guarantee business to clients in more industry sectors in the future in order to maintain its business position.

### Sufficient capital adequacy and high level of liquid resources

JYFG's relatively strong capital profile is supported by strong shareholder background and manageable guarantee exposure, which provides the Company with a healthy loss-absorption buffer against unexpected market volatilities. We expect that JYFG's capital base will be underpinned by its stated-owned shareholders including Jinding Group and Agricultural Development Fund. JYFG has received ongoing capital support, with a registered and paid-in capital of RMB5.0 billion as of 30 June 2024. As of the same date, JYFG's outstanding guarantee liabilities to net asset ratio was 4.1x, which was far lower than the regulatory ceiling and that of other provincial guarantee companies. However, the Company decided to distribute accumulated 7-year dividends to Jinding Group in 2024, which decreased its capital base and liquidity resources.

The Company has relatively high level of liquid recourses, which offer sufficient buffers to a financial guarantor to meet its unexpected liabilities. As of 30 June 2024, JYFG had liquidity ratio (measured by high liquid assets/total assets) of approximately 53.7%, which mainly comprised unrestricted cash. However, as the Company continued to expand its business in guarantee service, the liquid assets to outstanding guarantee liabilities slightly decreased from 23.1% as of end-2021 to 17.4% as of 30 June 2024. With JYFG's good risk management ability and prudent business development strategy, we expect that the Company's existing liquid assets can cover the possible claims in the following 12-18 months.

## External Support

### High likelihood of support from the Sichuan Provincial Government and the parent company

We expect a high likelihood of government support from the Sichuan Provincial Government and parent support from Sichuan Energy to JYFG in times of need. This expectation is based on our considerations of the Company's (1) ultimate control by the Sichuan Provincial Government; (2) strategic importance in further optimizing financial environment in Sichuan Province; and (3) solid track record of business and financial support.

As one of the three provincial guarantee companies in Sichuan Province, JYFG has relatively strong market position in local guarantee service sector and the failure of the Company will cause certain impact on capital market in Sichuan Province and concerns over the parent company and the government's reputation. JYFG has a functional role in promoting the construction of risk sharing mechanisms and credit risk systems in resolving the financing needs for SMEs and the development of domestic direct financing, which helps to increase the proportion of direct financing, reduce financing costs, and enhance direct financing capabilities of enterprises, as well as promote the high-quality development of the bond market in Sichuan Province.

Sichuan Energy is an important entity in promoting energy infrastructure construction in Sichuan Province and has a high strategic position in Sichuan Province. The Sichuan SASAC has direct control over Sichuan Energy and can provide strong government support such as asset injection. JYFG is a core subsidiary in the financial field within Sichuan Energy and has strategic significance in Sichuan Energy. JYFG has received capital injection and operating subsidies from the Sichuan Provincial Government through Sichuan Energy and Jinding Group to support the Company's business development.

In addition, Sichuan Energy maintains a high degree of control over JYFG's operations, including but not limited to the appointment of key management personnel. Sichuan Energy is also expected to provide support to JYFG in terms of capital replenishment and liquidity support. Given the important role of JYFG, we believe that the Company will retain its strong policy role and market position over the medium to long term.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [Financial Guarantors \(January 2022\)](#).



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