

Lianhe Global has assigned ‘BB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Lionbridge Capital Co., Limited

HONG KONG, 24 November 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BB’ global scale Long-term Issuer Credit Rating to Lionbridge Capital Co., Limited (“Lionbridge Capital”). The Outlook is Stable.

The Issuer Rating reflects Lionbridge Capital’s niche franchise in China’s truck leasing market, adequately managed leasing assets, limited duration mismatch between its receivables and debt as well as the positive impact of CCB Trust Co. Ltd.’s (“CCBT”) shareholding on Lionbridge Capital’s market position and financial flexibility. The rating also considers its concentrated business profile, rapid asset growth, significant reliance on wholesale secured funding comprising mainly short-term and secured financing, moderately weak profitability and high leverage.

The Stable Outlook reflects our expectation that Lionbridge Capital will maintain its niche presence in China’s commercial vehicle leasing market and an adequate funding and liquidity position which is commensurate with its credit profile.

Key Rating Rationales

Leading Market Position in the Niche Truck Leasing Market: Lionbridge Capital used to provide leasing services for commercial vehicles (mainly trucks), passenger vehicles as well as medical, agricultural, industrial and new energy equipment. Lionbridge Capital has adjusted its strategy since around end-2017 to focus on the commercial vehicle leasing business in which Lionbridge Capital had developed its competitive advantages. Lionbridge Capital provides its services for retail customers who are mainly drivers or carriers in China’s logistics industry. Lionbridge Capital has now become the largest independent third-party commercial vehicle financial leasing services provider as measured by the total principal amount of financing transactions originated in 2019.

CCBT’s Shareholding Benefits Lionbridge Capital: CCBT, a majority-owned subsidiary of China Construction Bank (“CCB”), purchased 30% of Lionbridge Capital’s parent company Lionbridge Cayman Limited’s equity interest in 1H2020 and became the single-largest shareholder, holding a 32% ownership of Lionbridge Cayman Limited. The investment and corporation with Lionbridge Capital enable Lionbridge Capital to gain support from CCBT and CCB. CCBT has approved the provision of a RMB10 billion liquidity facility to support Lionbridge Capital’s business development. Lionbridge Capital has also obtained a quota of RMB10 billion from CCB for business cooperation.

Adequate Risk Management Supports its Credit Profile: Lionbridge Capital has invested substantially in technology in the recent years and has developed sound credit analysis systems to support its credit assessment and approval efficiencies as well as asset quality management. Lionbridge Capital’s delinquency rates of the finance lease receivables

increased amid the COVID-19 outbreak but gradually stabilised in 2Q2020. The three-month overdue ratio was 1.2% as of end-June 2020 (1.1% as of end-2019).

Rapid Business Growth Weighs on Capitalisation: Lionbridge Capital has relied on ongoing capital injections to support its business growth. Its total assets grew rapidly to RMB24.4 billion as of end-June 2020 from RMB15.7 billion as of end-2017, with a compound annual growth rate of about 20%. Lionbridge Capital's common equity to total assets ratio (tangible) improved to 11.3% as of end-2019 and 10.8% as of end-2018 from 9.0% as of end-2017 as a result of the capital injections. However, the asset increase in 1H2020 resulted in the decline of the ratio to 10.7% at end-June 2020. The cooperation with CCBT would help Lionbridge Capital's expansion in the less capital-intensive loan facilitation business and reduce capital pressure.

Moderately Weak and Volatile Profitability: Lionbridge Capital's small franchise with high operating expenses to maintain an extensive network and high funding cost have constrained its profitability. Lionbridge Capital reported a low return on assets of 0.3% in 2018. The ratio improved to 0.8% in 2019 and remained steady (0.7%, annualised) in 1H2020 despite the impact of the COVID-19 outbreak. Lionbridge Capital's cost to income ratio (operating expense/operating income) was high at about 60% in 2018 and 2019, reflecting its small franchise with high operating cost in the retail truck lease business. We expect Lionbridge Capital's profitability to increase on growing business volume and lower funding costs with more diversified funding, but a potential increase in credit costs may partially offset the impact.

A Significant Reliance on Wholesale Secured Funding: Lionbridge Capital is significantly reliant on short-term secured funding, which constrains its financial flexibility and liquidity as it has pledged most of its earning assets (mainly lease assets). Short-term debt accounted for 86.6% of Lionbridge Capital's total debt, while secured funding represented 85.3% of the total as of end-June 2020. Benefiting from CCBT's franchise and the relationship with the CCB, Lionbridge Capital's financial flexibility is expected to improve with the access to more diversified funding channels and less reliance on secured funding. In addition, most of Lionbridge Capital's leasing receivables have a tenor of one to two years, which generally matches the maturities of its liabilities, mitigating the concerns over its notable reliance on wholesale funding.

Rating Sensitivities

We would consider downgrading Lionbridge Capital's rating if there is 1) significant deterioration in its capital adequacy, or 2) notable increase in impaired loans which adversely impacts its business and financial profile, or 3) weakened funding structure with notable duration mismatch and tightened liquidity, or 4) a significant reduction of CCBT's shareholding with weakened operational and financial support from CCBT.

We would consider upgrading Lionbridge Capital's rating if it were to improve its 1) franchise with bigger business scale and wider market coverage, 2) funding diversity, 3) capital buffer to support business growth and withstand the economic downturn, and 4) strategic alliance with CCBT with greater business and financial linkages.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this Lionbridge Capital's rating is Lianhe Global's Non-Bank Financial Institutions Criteria published on 16 July 2018 which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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