

# Lionbridge Capital Co., Limited

## Initial Issuer Report

### Summary

Issuer Rating	BB
Outlook	Stable
Location	China
Industry	NBFI
Date	2 December 2020

### Operating Data:

Lionbridge Capital Co., Limited

	31 Dec 2019	30 Jun 2020
Total Assets (RMB: in million)	22,247.9	24,425.8
Total Equity (RMB: in million)	2,555.0	2,640.5
Net Profit (RMB: in million)	167.6	85.5
Return on Average Assets (% , annualised)	0.8	0.7
Total Capital Adequacy Ratio (%)	12.5	n.a.

Source: Lionbridge Capital and Lianhe Global

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BB’ global scale Long-term Issuer Credit Rating to Lionbridge Capital Co., Limited (“Lionbridge Capital” or “the company”). The Outlook is Stable.

### Summary

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.

### Rating Rationale

**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 (“Lionbridge Cayman”) equity interest in 1H2020 and became the single-largest shareholder, holding a 32% ownership of Lionbridge Cayman. 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

### Analysts

Joyce Huang  
+852 3462 9578  
[joyce.huang@lhratingsglobal.com](mailto:joyce.huang@lhratingsglobal.com)

Stan Ho  
+852 3462 9568  
[stan.ho@lhratingsglobal.com](mailto:stan.ho@lhratingsglobal.com)

### Applicable Criteria

Non-Bank Financial Institutions  
Criteria (16 July 2018)



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 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.



## Company Profile

Lionbridge Capital was established in Hong Kong in 2011. It set up Lionbridge Financing Leasing (China) Co., Ltd. ("Lionbridge China") in mainland China in 2012 as its core operating entity, which was primarily engaged in providing self-funded financing leasing and loan facilitation to commercial vehicle purchasers. Lionbridge China represented the majority of Lionbridge Capital's total assets as of end-June 2020. Lionbridge China has now become the largest independent third-party commercial vehicle financial service provider as measured by the total principal amount of financing transactions originated in 2019. In addition to financing-related services, it provides used commercial vehicle transaction services including inspection, appraisal and auction.

Lionbridge Capital is fully owned by Lionbridge Cayman. In September 2014, Bain Capital Lionbridge Cayman Limited ("Bain Capital") acquired 81.0% of Lionbridge Cayman's equity interest and became the controlling shareholder. On March 17, 2020, Lionbridge Cayman announced that CCBT, a majority-owned subsidiary of CCB, had entered into a share purchase agreement with Bain Capital to purchase 30% of Lionbridge Cayman's equity interest held by Bain Capital. The transaction was closed in June 2020, following which CCBT has become the single-largest shareholder, holding a 32% ownership of Lionbridge Cayman and in turn Bain Capital and the company management now control 45.6% shareholding in Lionbridge Cayman.

CCBT is majority-owned by CCB, the second-largest state bank in China. The investment and cooperation with Lionbridge Capital enable Lionbridge Capital to gain support from CCBT and CCB. For example, CCBT has approved the provision of a RMB10 billion liquidity facility to support Lionbridge Capital's business development in addition to a keepwell agreement for Lionbridge Capital's offshore borrowings. CCB has also entered a partnership agreement with Lionbridge Capital; Lionbridge Capital has obtained a quota of RMB10 billion from CCB for business cooperation. In addition, Lionbridge Capital has leveraged CCBT's strong financial resources and broad connections in financial and capital markets to further diversify its funding sources and improve its funding structure, evidenced by the increasing proportion of its unsecured debt.

## Business Profile

### A Leasing Company Focused on Commercial Vehicle Buyers

Lionbridge Capital is a leading services platform for commercial vehicles in China. The company focuses on providing financing solutions to its customers in China's commercial vehicle market, largely because of the strong demand for commercial vehicles, such as heavy trucks, towing trucks and dump trucks, arising from the rapid development in the China's logistics industry in the recent years. Benefiting from the rapid growth of the logistics industry and its established operation network, its business has grown substantially. Lionbridge Capital's total revenues were RMB1,539.3 million, RMB1,710.0 million, RMB2,408.2 million, and RMB1,527.8 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively.

Lionbridge Capital used to provide leasing services for commercial vehicles (mainly trucks), passenger vehicles as well as medical, agricultural, industrial and new energy equipment. The company has adjusted its strategy since around end-2017 to focus on the commercial vehicle leasing business in which the company had developed its competitive advantage. Backed up by its technology capabilities in big data and artificial intelligence, Lionbridge Capital has built a differentiated risk control model and IT system and become a platform that covers the full lifecycle of commercial vehicles, from primary sales and vehicle operations to vehicle support



and used vehicle transactions. The underlying assets of the truck leasing segment include heavy trucks, towing trucks and dump trucks.

#### **Loan service**

Lionbridge Capital offers two types of self-funded financial leasing, namely direct financial leasing and sale-leaseback. Lionbridge Capital uses its own capital to fund the financial leasing and bears credit risk. Lionbridge Capital typically finances the purchase of new or used commercial vehicles. The borrowers, mostly drivers or carriers in China's logistics market, use the leased commercial vehicle directly in their daily operations in e-commerce, construction and retail businesses. The terms of the financial leasing depend on various factors, such as the vehicle model, the risk profile of the borrower and whether the commercial vehicle is new or used.

The rapid growth of Lionbridge leasing business is mainly due to the growth of its heavy truck leasing business. Lionbridge's heavy truck leasing business provides financial leasing services for heavy trucks such as trucks and dump trucks to customers in the consumption fields that are less vulnerable to the economic cycle, as heavy truck equipment has strong market demand, short lease term and high residual value.

#### **Loan facilitation**

To further expand the commercial vehicle leasing business, increase market share and avoid capital constraints, Lionbridge Capital provided a service platform to connect borrowers to the banks in 2018. Lionbridge Capital recommends the lessee that meets the lending requirements of the financial institution, and the financial institution directly signs the loan contract with the customer. Lionbridge Capital acts as a broker to collect services fees and is responsible for the post loan management of the leased property. As Lionbridge Capital only provides guarantees for a small portion of the loans, this business model enables Lionbridge Capital to earn fee income while minimising capital usage and credit risk. Lionbridge Capital facilitates financings for a wide range of selected third-party financial institutions.

### **Leverage Technology Capabilities to Boost Risk Management Efficiency**

With its strong database and technical capabilities and integration support with external data sources (such as the People's Bank of China and Baidu), Lionbridge Capital has established a data-driven risk management with effective probability of default, and loss given default models, and also includes a pre-loan application score card model, cross-selling behavioural score card model, and post-loan collection score card model. Utilising the large amount of data it accumulated over the years, Lionbridge Capital has established the largest used commercial vehicle database in China in terms of the number of vehicle models covered as of 2019 and further strengthened it by the assistance from its on-the-ground teams to deliver accurate vehicle appraisal, effective loan-to-value control and optimised recovery.

As an aid to its repossession efforts, Lionbridge Capital installs at least one GPS device on every commercial vehicle purchased under the leases. GPS coverage greatly enhances Lionbridge Capital's ability to monitor the usage of the leased vehicles and enables it to understand its customers' operation conditions with increased accuracy and timeliness, which in turn improves its abilities to foresee and monitor operational risks. GPS coverage also enhances Lionbridge Capital's abilities to enforce property rights and reclaims its leased vehicles from defaulting lessees.

### **Mainly Leasing Receivables for Commercial Vehicles**

As of end-June 2020, leasing receivables for commercial vehicles (mainly trucks) accounted for 96% of Lionbridge Capital's total leasing receivables. Passenger vehicles and medical

equipment accounted for the remainder. From 2018 to 1H2020, above 80% of the principal amount of the financing originated by Lionbridge Capital were used to finance new commercial vehicle buyers. Lionbridge Capital has been growing the loan facilitation business as well. Since 2018, Lionbridge Capital has signed partnerships with a series of banks under which the banks directly fund the leasing contracts with Lionbridge Capital's client system connected directly to the banks' systems. Lionbridge Capital has also built a trading platform for used commercial vehicles.

**Exhibit 1: Overview of Lionbridge Capital's Financial Leasing Business**

RMB billion	2017	2018	2019	1H2020
Total origination within the period	11.3	11.4	22.8	14.7
— Commercial vehicles	11.3	11.4	22.8	14.7
— Others	0.0	0.0	0.0	0.0
Balance of lease assets	13.1	13.4	17.3	17.5
— Commercial vehicles	10.8	12.0	16.5	16.8
— Passenger vehicles	0.9	0.4	0.1	0.0
— Medical equipment	1.2	0.9	0.8	0.6
— Agricultural equipment	0.1	0.0	0.0	0.0

Source: Lionbridge Capital and Lianhe Global's calculations

**Exhibit 2: Overview of Lionbridge Capital's Loan Facilitation Business**

RMB billion	2018	2019	1H2020
Balance of loan facilitation business	1.2	6.1	10.1
— With credit guarantee	0.0	1.1	1.6
— Without credit guarantee	1.2	5.0	8.5
Total origination within the period	1.2	7.3	6.5
Reimbursement amount within the period	0.0	0.0	0.1

Source: Lionbridge Capital and Lianhe Global's calculations

## Financial Profile

### Small Franchise Constrains Profitability

Lionbridge Capital's small franchise with high operating expenses to maintain an extensive network and high funding cost have been the main constraints on its profitability. Lionbridge Capital's return on asset ratio was 0.3% in 2018 but improved to 0.8% in 2019. Despite the impact of the COVID-19 outbreak, its overall profitability remained steady at 0.7% (annualised) in 1H2020. The high operating cost in running the retail truck lease business has resulted in a high cost to income ratio which was about 60% in 2018 and 2019. Lionbridge Capital's profitability should improve on growing business volume and lower funding costs with more diversified funding, although a potential increase in credit costs may partially offset the impact.

Lionbridge Capital monitors asset quality mainly based on one-month overdue ratio and three-month overdue ratio. Its asset quality slightly deteriorated in recent years. The one-month overdue ratio increased from 1.0% as of end-2018 to 1.2% as of end-2019, and further to 1.4% as of June 30, 2020 and the three-month overdue ratio increased from 0.9% as of end-2018 to 1.1% as of end-2019 and further to 1.2% as of June 30, 2020. Overall, the delinquency rates increased amid the COVID-19 outbreak and gradually stabilised in 2Q2020. In terms of the provision coverage, Lionbridge Capital's loan loss reserves generally accounted for about 2% of its gross finance lease receivables.

### Reliance on Wholesale Funding and New Capital to Support Growth

Lionbridge Capital has relied on ongoing capital injections to support its business growth. Lionbridge Cayman, the parent company of Lionbridge Capital, injected RMB509 million and RMB541 million of common equity into Lionbridge Capital in 2018 and 2019, respectively. As a result, 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. However, the asset increase in 1H2020 resulted in the decline of the ratio to 10.7% at end-June 2020. We believe that the cooperation with CCBT would help Lionbridge Capital's expansion in the less capital-intensive loan facilitation business and reduce capital pressure.

Lionbridge Capital has significant short-term secured funding, which constrains its financial flexibility and liquidity as it has pledged most of its earning assets (mainly lease assets). As of end-June 2020, short-term debt accounted for 86.6% of Lionbridge Capital's total debt, while secured funding represented 85.3% of the total. Most of Lionbridge Capital's leasing receivables have a tenor of one to two years, which generally matches the maturities of its liabilities, and mitigates the concerns over its significant reliance on wholesale funding. In addition, benefiting from CCBT's franchise and the relationship with CCB, we expect Lionbridge Capital's financial flexibility to improve with the access to more diversified funding channels and less reliance on secured funding. Lionbridge Capital has been increasing its long-term funding through the issuance of asset-backed securities and long-term onshore and offshore bonds. Lionbridge Capital has also obtained credit lines from multiple banks.

#### Exhibit 3: Lionbridge Capital's Key Financial Metrics

RMB million	2017	2018	2019	1H2020
Total Assets	15,742.0	17,220.3	22,247.9	24,425.8
Gross Finance Lease Receivables	13,055.6	13,357.2	17,326.1	17,459.0
Total Equity	1,414.7	1,872.0	2,555.0	2,640.5



Net Profit	158.5	47.5	167.6	85.5
Return on Average Assets (%, annualised)	1.3	0.3	0.8	0.7
Return on Average Equity (%, annualised)	11.9	2.9	7.6	6.6
Impairment Charges to Average Gross Receivables (%)	2.6	0.5	0.9	1.2
Loan Loss Reserves to Gross Receivables (% annualised)	1.4	1.9	1.8	2.0
Overdue for More Than 3 Months (%)	n.a	1.0	1.1	1.2
Total Capital Adequacy Ratio (%)	9.9	12.0	12.5	n.a.
Common Equity to Total Assets (tangible, %)	9.0	10.8	11.3	10.7
Short-term Debt to Total Debt (%)	72.6	71.5	83.3	86.6
Liquid Assets to Short-term Debt (%)	13.6	15.3	12.8	25.5
Unsecured Debt to Total Debt (%)	13.9	13.7	10.0	14.7

Source: Lionbridge Capital and Lianhe Global's calculations



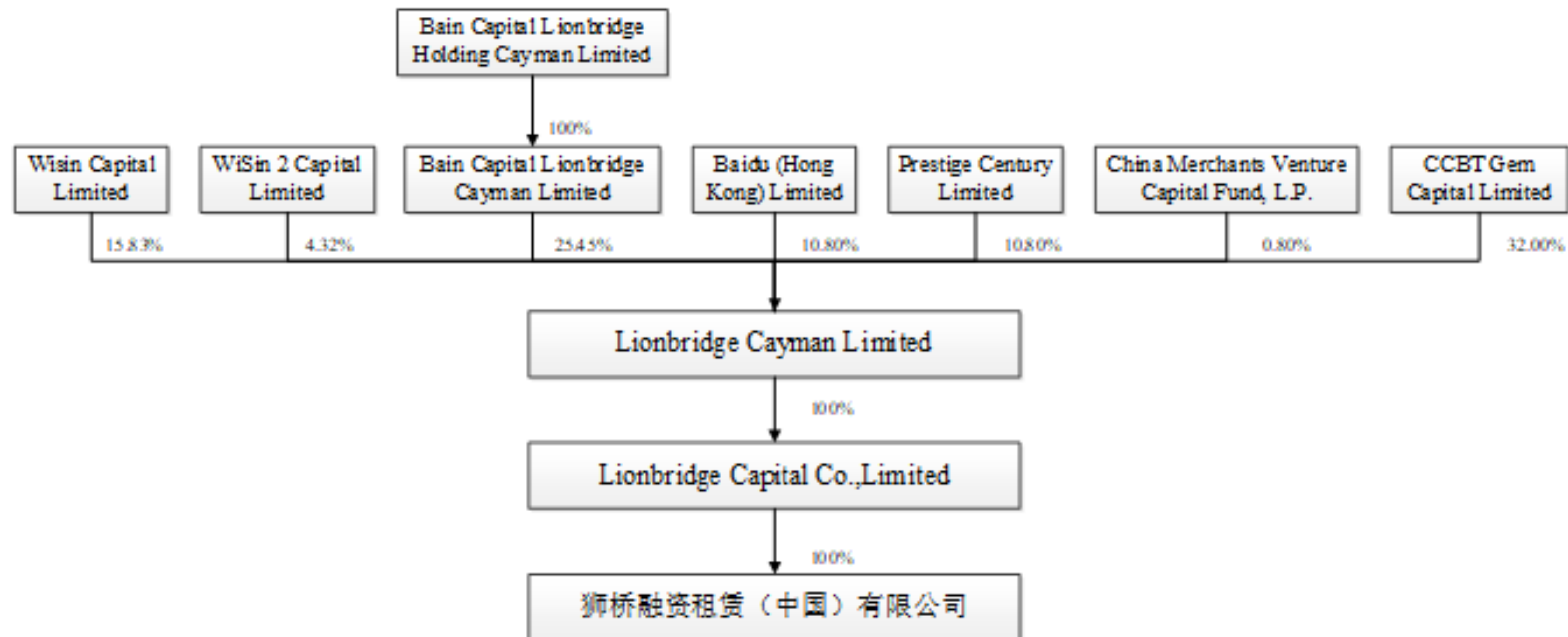


**Appendix I: Lionbridge Capital's Rating Factors**

<b>Key Factors</b>	<b>Weight</b>	<b>Initial Rating</b>
I. Operating Environment	15.0%	bbb-
II. Business Profile	25.0%	bb-
III. Governance and Management	5.0%	bb+
IV. Risk Management and Exposures	20.0%	bb+
V. Financial Profile	35.0%	bb-
Standalone Credit Rating	100.0%	bb
VI. External Support		N/A
Issuer Credit Rating		BB



Appendix II: Lionbridge Capital's Ownership Structure at End-June 2020



Note: CCBT Gem Capital Limited is a wholly-owned subsidiary of CCBT.

Source: Lionbridge Capital

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