

Lionbridge Capital Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BB+
Outlook	Stable
Location	China
Industry	NBFI
Date	10 November 2021

Operating Data:

Lionbridge Capital Co., Ltd.

	31 Dec 2020	30 Jun 2021
Total Assets (RMB: in million)	21.82	25.05
Total Equity (RMB: in million)	2.85	3.01
Net Profit (RMB: in million)	193.32	159.97
Return on Average Assets (% , annualised)	0.9	0.7
Total Capital Adequacy Ratio (%)	15.0	13.7

Source: Lionbridge Capital and Lianhe Global

Lianhe Global has upgraded the global scale Long-term Issuer Credit Rating of Lionbridge Capital Co., Ltd. (“Lionbridge Capital” or “the company”) to ‘BB+’ from ‘BB’; The Outlook is Stable.

Summary

The Issuer Rating upgrade reflects Lionbridge Capital’s leading niche franchise market position in China’s truck leasing market, growing and adequately managed leasing assets with low delinquency and loss ratios despite the COVID-19 outbreak, limited duration mismatch between its leasing receivables and debt, as well as the increased financial flexibility in accessing the bank and capital markets as a result of the positive impact from CCB Trust Co. Ltd.’s (“CCBT”) shareholding. The rating also considers its concentrated business profile, rapid growth in its loan facilitation portfolio, secured funding comprising mainly short-term (but with limited duration mismatch between its leasing receivables and debt) and secured financing, moderately volatile profitability and relatively high financial leverage.

The Issuer Rating Outlook reflects our expectation that Lionbridge Capital will continue to grow its truck leasing and loan facilitation businesses while manage the augmented loan portfolio adequately with low delinquency and loss ratios in line with its prior loan portfolio performance. We expect Lionbridge Capital to continue to at least maintain and/or improve its access to both the bank and capital markets for fundings. We also expect the same strong support from CCBT through shareholding and credit lines.

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 end-2018 to focus on the commercial vehicle leasing business in which Lionbridge Capital has 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 became the largest independent third-party commercial vehicle financial leasing services provider as measured by the total principal amount of financing transactions originated in 2019 in China.

CCBT’s Shareholding Benefits Lionbridge Capital: Lionbridge Capital has strengthened the strategic cooperation with CCBT, a trust company which is majority-owned by China Construction Bank Corporation (“CCB”), the second-largest state-owned bank in China. The investment and alliance enable Lionbridge Capital to gain support from CCBT and CCB. The affiliation helps the company to lower its funding cost and grow its client base. CCBT issued a letter of liquidity support in November 2020 for Lionbridge Capital’s onshore RMB bond issuance. At the same time, it offers a keepwell deed for Lionbridge Capital’s offshore borrowings. CCBT also offered loan facilities to support Lionbridge Capital’s working capital loans, supply chain finance and micro business loans.

Adequate Risk Management Supports Its Credit Profile: Supported by its database and technology capacities, as well as the integration with external data sources such as PBOC and Baidu, Lionbridge Capital has established a data-driven risk management with effective PD (probability of default) and LGD (loss given default) models, which also include a pre-loan application score card model, a cross-selling behavioural score card model, and a post-loan

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Applicable Criteria

Non-Bank Financial Institutions
 Criteria (16 July 2018)

collection score card model. Utilizing the vast amount of data it accumulated over the years, Lionbridge Capital has built the largest used commercial vehicle database in China in terms of the number of vehicle models covered at end-2019, which is further strengthened by the assistance from its on-the-ground teams of about 2,500 sales to deliver vehicle appraisals, LTV controls and optimized recoveries. These sales also provide after-sales service including handling early delinquency by visiting the borrowers with payments in arrears. In addition, the portfolio had gone through a downcycle during the pandemic in early 2020 but without experiencing a material deterioration in performance. As a result, we believe the overall risk management and exposure are manageable despite the concentrated single asset class.

No Significant Asset Quality Deterioration Amid the COVID-19 Outbreak: Lionbridge Capital monitors asset quality based on one-month overdue ratio and three-month overdue ratio. Its asset quality slightly deteriorated in 2020 amid the COVID-19 outbreak, but it almost remained the same in 1H2021. The one-month overdue ratio increased to 1.3% at end-2020 from 1.2% at end-2019, and kept at around 1.3% at end-June 2021. The three-month overdue ratio, on the other hand, showed a relatively flat trend. It has been hovering around 1.1% since 2019. Overall, the delinquency rates increased slightly amid the COVID-19 outbreak but gradually stabilized in end 2020.

Rapid Business Growth Weighs on Capitalization: Lionbridge Capital relied on ongoing capital injections to support its business growth. Its total assets grew rapidly to RMB21.82 billion at end-2020 from RMB17.22 billion at end-2018, with a compound annual growth rate of about 12.57%. Lionbridge Capital's common equity to total assets ratio (tangible) improved to 12.9% at end-2020 from 9.0% at end-2017 as a result of the capital injections. However, the asset increases in 1H2021 resulted in a decline of the ratio to 11.9% at end-June 2021. Lionbridge Cayman Limited ("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. Lionbridge received another around of RMB100 million capital injection from CCBT in 2020 as well. The cooperation with CCBT helps Lionbridge Capital's expansion in the less capital-intensive loan facilitation business and reduces capital pressure.

Reliance on Wholesale Secured Funding: Lionbridge Capital relies 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 79.5% of Lionbridge Capital's total debt, while secured funding represented 64.8% of the total at end-June 2021. Benefiting from CCBT's franchise and the relationship with CCB, we expect Lionbridge Capital's financial flexibility to continue 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 tenors of one to two years, which generally match the maturities of its liabilities, mitigating the concerns over its reliance on wholesale 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. It has a credit line totalling RMB8.5 billion and RMB4.7 billion had been used at end-June 2021. Lionbridge Capital also has an onshore-guarantee-for-offshore-loan quota of RMB2 billion for the repayment of the two offshore USD bonds maturing in 2022.

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, or (5) significant deterioration in the access to the bank and/or capital market financings, or (6) a material change in the regulatory framework.

We would consider upgrading Lionbridge Capital's rating if it were to further improve its 1) franchise with bigger business scale and wider market coverage, 2) funding diversity, 3) capital buffer to support business growth and withstand 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 at end-June 2021. Lionbridge China became the largest independent third-party commercial vehicle financial service provider as measured by the total principal amount of financing transactions originated in 2019 in China. 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, while Bain Capital and the company's management control 45.6% shareholding in Lionbridge Cayman.

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