

Zhongyuan Asset Management Co., Ltd.

Surveillance Report

Lianhe Global has affirmed ‘A-’ global scale Long-term Issuer and Issuance Credit Rating of Zhongyuan Asset Management Co., Ltd. (“Zhongyuan AMC”); Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Henan Province (“the Henan provincial government”) would provide strong support to Zhongyuan Asset Management Co., Ltd. (“Zhongyuan AMC” or “the company”) if needed, in light of its majority ownership of Zhongyuan AMC, Zhongyuan AMC’s strategic position as the major AMC of Henan and the strong linkage between the Henan provincial government and Zhongyuan AMC including management supervision, strategic alignment and ongoing operational and financial support. In addition, the Henan provincial government may face significant negative impact on its reputation, business and financing activities should Zhongyuan AMC encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that Zhongyuan AMC’s strategic importance would remain intact while the Henan provincial government will continue to ensure Zhongyuan AMC’s stable operation.

Rating Rationale

Government’s and Government Supervision: In 2022, Finance Bureau of Henan Province (“Finance Bureau”) increased its shareholding in Zhongyuan AMC to 78.5%, including 16% of direct ownership and 62.5% stake held indirectly via Henan Investment Group Co., LTD (50%), Henan Agriculture Investment Group Co., Ltd. (9.17%) and Zhongyuan Yuzi Investment Holding Group Co., Ltd (3.33%), from 57% at end-2021.

The Henan provincial government has strong control and supervision over Zhongyuan AMC, including control of the board of directors, senior management appointments and major strategic, investing and financing plans.

Strategic Importance and Strategic Alignment: As the only local AMC directly managed by the Henan provincial government, Zhongyuan AMC’s strategic planning and development have been aligned with the local government’s economic and social policies. The company plays an important role in maintaining the province’s financial stability, promoting regional economic development and carrying out key initiatives designated by the Henan provincial government.

In 2022, the company acquired a mega distressed financial assets package, amounting to RMB20.2 billion, from three local banks, Zhongyuan Bank, Bank of Luoyang Bank and Bank of Pingdingshan. This was to facilitate the process of merger by absorption of Bank of Luoyang, Bank of Pingdingshan and Bank of JZCTS by Zhongyuan Bank.

Ongoing Government Support: Zhongyuan AMC has received strong support from the local government, mainly in the form of capital injections. Following the capital injection of RMB4.3 billion in December 2021, the company received two rounds of capital injections of RMB200 million and RMB500 million in 2022 from Finance Bureau. At end-2022, both

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	11 July 2023

Key Figures of Henan and Zhongyuan AMC

(RMB billion)	2021	2022
Henan		
GDP	5,888.7	6,134.5
GDP growth rate (%)	6.3	9.5
Budgetary revenue	435.4	426.2
Government fund	336.8	221.3
Transfer payment	527.2	573.2
Budgetary expenditure	978.4	1,064.5
Zhongyuan AMC		
Assets	59.5	70.7
Equity	15.2	16.2
Revenue	3.0	3.1

Source: Public information, Zhongyuan AMC and Lianhe Global’s calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)



Zhongyuan AMC's registered and paid-in capital were enlarged to RMB10 billion. In addition, Zhongyuan AMC received government subsidies of c. RMB25 million during the year. Given its strategic importance in Henan, we expect Zhongyuan AMC to receive timely government support in the future.

Economic and Fiscal Condition of Henan Province: Henan's GDP reached RMB6,134.5 billion in 2022, representing a year-over-year growth rate of 3.1%, down from 6.3% in 2021 due to Covid's impact. Henan also faced challenges in resolving rural bank issues and stalled property projects during the year. Henan's GDP scale ranked 5th in 2022, yet its GDP per capita was still below the national average.

The Henan provincial government's budgetary revenue decreased to RMB426.2 billion in 2022 from RMB435.4 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. Henan provincial government's financial self-sufficiency rate was low, and its budget deficit widened to -149.8% in 2022 due to lower budgetary revenue and larger budgetary expenditure on supporting social initiatives.

The outstanding amount of the Henan provincial government's debt surged to RMB1,510.4 billion at end-2022, representing a year-over-year growth rate of 21.9%. The debt ratio (total government debt/aggregate revenue) climbed to 122.9% in 2022 from 95.1% in 2021, mainly due to the increase in special debt to support project developments in Henan.

Zhongyuan AMC's Financials and Liquidity Position Zhongyuan AMC's total asset grew significantly to RMB72.0 billion at end-March 2023 from RMB59.5 billion at end-2021 as the company received a large capital injection in 2022. Over the same period, the company borrowed heavily to support its acquisition of distressed financial assets. As a result, its financial leverage, as measured by debt/ capitalization, slightly increased to 74.4% from 71.6%.

Zhongyuan AMC's liquidity was manageable. At end-March 2023, Zhongyuan AMC had an unrestricted cash balance and unused credit facilities of RMB1.4 billion and RMB25.1 billion, respectively, compared with its debt due within one year of RMB17.3 billion. In addition, the company also had available bond issuance quotas in the onshore market of c. RMB 3.7 billion. Zhongyuan AMC has access to multiple financing channels, including bank borrowings, bond issuance and non-traditional financing, to support its business operations and debt repayment.

Rating Sensitivities

We would consider downgrading Zhongyuan AMC's rating if (1) there is perceived weakening in support from the Henan provincial government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Henan provincial government's ownership of Zhongyuan AMC, or (3) there is a downgrade in our internal credit assessment on the Henan provincial government.

We would consider upgrading Zhongyuan AMC's rating if (1) there is strengthened support from the Henan provincial government, or (2) there is an upgrade in our internal credit assessment on the Henan provincial government.



Company Profile

Zhongyuan AMC was established in August 2015 under the approval of the Henan provincial government. It is the first local AMC with the business of acquisition and disposal of financial non-performing assets in Henan Province.

Full List of Issuance Rating

A full list of issuance rating is included below. Any rating action on Zhongyuan AMC's rating would result in a similar rating action on the USD notes:

- USD110 million 7.5% senior unsecured notes due 2024 affirmed at 'A'

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