

Zhuhai Rural Commercial Bank Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Banking
Date	28 March 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer and Issuance Credit Rating of Zhuhai Rural Commercial Bank Co., Ltd. (“ZRCB”); Issuer Rating Outlook is Stable.

Summary

The Issuer Rating reflects ZRCB’s established strong network in Zhuhai, strong capitalization after the private placement in 2022 and adequate liquidity. In addition, we expect that there is a high possibility that the Zhuhai government would provide strong support to ZRCB if needed, considering their strong linkage. The rating also considers ZRCB’s limited operating scale, relatively high concentration risks, under pressure loan quality and profitability.

Lianhe Global has also affirmed ‘BBB-’ global scale Long-term Issuance Credit Rating of the senior unsecured CNY green bonds issued by ZRCB at the same time. A full list of affirmed issuance rating is included in this report.

The Stable Outlook reflects our expectation that ZRCB will maintain its market position in Zhuhai and its linkage with the Zhuhai government while maintaining the capital adequacy ratio and liquidity ratio at the level which is commensurate with its credit profile.

Rating Rationale

Established Strong Network in Zhuhai: ZRCB, formerly known as Zhuhai Rural Credit Union, is a local bank in Zhuhai with a long operating history and the largest number of business sites covering whole Zhuhai, including its rural areas and three islands. It was ranked 8th in total deposit and loan scale consistently among banks operating in Zhuhai. The total deposit scale was behind stated-owned giants but ahead of an array of national players. The strong network provides stable funding to ZRCB. Customer deposits contributed over 80% to the bank’s total liabilities, of which c. 70% were personal deposits.

However, ZRCB’s operating scale is small, putting it at a disadvantaged position in respect to its pricing power and product. In addition, the sector and geographical concentration of ZRCB’s lending remained high, given its nature as a local rural commercial bank.

Linkage with the Zhuhai government: The Zhuhai government holds 43.22% shares of ZRCB through eight SOEs in Zhuhai, and the Guangdong Rural Credit Union has turned over the management control of ZRCB to the Zhuhai government since 2021. Moreover, ZRCB is a major financial institution in Zhuhai, which is important in promoting local economic growth, especially in supporting micro, small and medium enterprises (“MSMEs”) and rural development and maintaining regional financial stability. Therefore, we expect that there is a high possibility that the Zhuhai government would provide strong support to ZRCB if needed.

Strong Capitalization after Private Placement: ZRCB completed a sizeable private placement of RMB3.7 billion in the second half of 2022, lifting its capital adequacy ratio significantly to 20.59% at end-2022 from 13.92% at end-June 2022. This could greatly enhance the bank’s loss absorption capacity and viability, as well as support its business growth.

However, ZRCB expanded its asset scale after the private placement, especially in corporate loans to support the real economy. This significantly consumed its capital as corporate loans

Major Operating Data of ZRCB

(RMB billion)	2022	3Q2023
Total Asset	79.4	83.2
Revenue	1.55	1.33
Net Profit	0.59	0.35
ROA (%)	0.79	--
ROE (%)	7.51	--
Net Interest Margin(%)	1.96	1.89
Non-Performing Loan Ratio (%)	1.38	1.38
Allowance Coverage Ratio (%)	196.6	164.7
Capital Adequacy Ratio (%)	20.59	17.43
Core Tier 1 Capital Adequacy Ratio (%)	17.19	16.44

Source: ZRCB and Lianhe Global’s calculations

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Applicable Criteria

[Banking Rating Criteria \(20 March 2023\)](#)

demand a relatively high risk weight. In addition, ZRCB repaid Tier 2 capital bonds of RMB1.2 billion in 2023. As a result, ZRCB's capital adequacy ratio decreased to 17.43% at end-September 2023. We expect it to decrease gradually as the bank expands its assets in the next two to three years while staying at a healthy level.

Loans Quality Under Pressure: The asset quality of ZRCB's loans was under pressure as the weak economy impaired borrowers, especially MSMEs' loan repayment ability. ZRCB's non-performing loan ratio ("NPLR") climbed to 1.83% at end-September 2023 from 1.38% at end-2022. This also dragged down its allowance coverage ratio to 164.68% from 196.59% over the same period. We expect ZRCB's NPLR to moderately increase in the next one to two years.

Weakening Profitability: ZRCB's operating revenue was mainly driven by interest income arising from loans and bond investments. The fee and commission incomes were increasing but only contributed a small fraction of the bank's total revenue. ZRCB's net interest margin, however, has demonstrated a downward trend since 2020, dropped to 1.89% at end-September 2023 from 2.38% at end-2020, which undermined the bank's profitability. This trend was in line with the banking sector as a whole, given that the lending rates were lowered by the policy to support the real economy. In addition, ZRCB faces a high impairment pressure owing to increasing NPLR and decreasing allowance coverage ratio.

Rating Sensitivities

We would consider downgrading ZRCB's rating if there is 1) a significant decrease in its capital adequacy, or 2) a notable deterioration in its asset quality, or 3) a weakened funding structure, or 4) a perceived weakening linkage between the Zhuhai government and ZRCB.

We would consider upgrading ZRCB's rating if it were to 1) improve its operating scale without significantly compromising its capital adequacy and asset quality, and 2) lower the concentration of its loans portfolio, and 3) improve its profitability.

Company Profile

ZRCB, formerly known as Zhuhai Rural Credit Cooperative, was founded in 1952. ZRCB is a locally incorporated bank and is the largest bank in terms of agricultural loans and the number of MSMEs customers in Zhuhai. The Zhuhai government holds 43.22% shares of ZRCB through eight SOEs in Zhuhai, and the Guangdong Rural Credit Union has turned over the management control of ZRCB to the Zhuhai government since 2021.

ZRCB's Top 10 Shareholders at end-September 2023

Shareholder	Percentage
珠海华发集团有限公司	6.61%
珠海华发投资控股集团有限公司	3.29%
珠海科创弘源投资有限公司	8.97%
珠海大横琴发展有限公司	8.10%
横琴金融投资集团有限公司	8.10%
珠海格力建设投资有限责任公司	7.02%
珠海市市场经营集团有限公司	1.08%
广东能源集团财务有限公司	6.61%
温氏食品集团股份有限公司	6.61%
河北普阳实业集团有限公司	4.00%
珠海鸣志房地产有限公司	2.99%
成都地方建筑机械化工程有限公司	1.60%
Total	64.98%

Source: ZRCB

Full List of Issuance Rating

A full list of affirmed Issuance Rating is included below. Any rating action on ZRCB's rating would result in a similar rating action on its senior unsecured bonds:

- CNY500 million 3.5% senior unsecured green bonds due 2026 affirmed at 'BBB-'

Appendix I: ZRCB's Rating Factors

Rating Factors	Weight	Initial Rating
I. Operating Environment	20%	bbb+
II. Business Profile	15%	b-
III. Governance an Management	10%	bb
IV. Risk Management and Exposures	20%	bb
V. Financial Profile	35%	bbb
Stand-Alone Creditworthiness		bb+
VI. External Support		
Government Support		Strong
Issuer Credit Rating		BBB-

Source: Lianhe Global

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