

Lianhe Ratings Global Limited has assigned ‘A+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chongqing Xingnong Financing and Guarantee Group Co., Ltd.

HONG KONG, 4 June 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A+’ global scale Long-term Issuer Credit Rating to Chongqing Xingnong Financing and Guarantee Group Co., Ltd. (“CXFG” or “the company”). The Outlook is Stable.

The Issuer Rating reflects CXFG’s leading market position as the key financial guarantee company in Chongqing City (“Chongqing”), as well as its strong capital base and moderate leverage. The rating also considers its concentrated business profile, moderately diversified revenue resources, stable profitability and low debt burden. Besides, we expect that CXFG would receive very strong financial and policy support from the People’s Government of Chongqing Province (“Chongqing government”) if needed, in light of its strategic importance in maintaining economic and financial system stability in Chongqing and the government’s full ownership. In addition, the Chongqing government may face significant negative impact on its reputation and financing activities if CXFG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that CXFG will maintain its market position and strategic importance in Chongqing’s financial system, and its adequate funding and liquidity position which is commensurate with its credit profile.

Key Rating Rationales

A Key Financial Guarantee Company in Chongqing with a Leading Position: CXFG is a leading financial guarantee company in Chongqing. Its guarantee services encompass direct financing guarantees (such as corporate bonds and asset-backed securities), indirect financing guarantees (including bank loans and bill acceptance), and non-financing guarantees (like performance guarantees for construction projects and electronic guarantees). With a dominant position in Chongqing’s financial guarantee market, CXFG enjoys significant operational advantages. As of end-2023, CXFG’s paid-in capital and total equity reached RMB8.6 billion and RMB12.3 billion, making it the most robust guarantee institution in Chongqing in terms of the capital base.

High Importance in Financial System Stability and Pivotal Strategic Role: CXFG plays a significant strategic role in regional economic development and financial stability by providing financial guarantees to small and medium-sized enterprises (“SMEs”) and the “Three Rural” sectors in Chongqing. It supports SMEs involved in rural farming, agro-processing, transportation, trade, and manufacturing, and backs local government infrastructure projects like park development, rural roads, and water facilities. In terms of revitalizing the three rural

assets, CXFG fosters rural economic growth by focusing on rural property mortgages and expanding services to high-standard farmland transformation and new rural construction.

In 2023, under Chongqing government's guidance, CXFG was tasked with mitigating local debt risks in districts and counties in Chongqing. Collaborating with major banks, it provides indirect guarantees to help debt restructuring in these areas by replacing short-term, high-cost debt with long-term, low-cost debt, aiming to reduce local debt pressure and enhancing risk prevention. In this regard, CXFG received capital injections of RMB4.0 billion from the Chongqing government. As the sole company designated for regional debt resolution, CXFG is crucial in improving the municipal debt management, optimizing local government debt structures, and promoting regional economic development and financial stability.

Government Ownership, Supervision and Strong Support: Established in 2011 with the approval of the Chongqing Government and led by the Chongqing State-owned Assets Supervision and Administration Commission ("Chongqing SASAC"), CXFG is a key state-owned enterprise administered by the Chongqing SASAC. The Chongqing government indirectly holds the full ownership through three wholly-owned subsidiaries and is the actual controller of the company. The government has final decision-making authority, overseeing management appointments, strategic development, investment plans, and major funding decisions. Additionally, the Chongqing government implements an assessment mechanism and appoints auditors to periodically supervise the company's operational performance and financial position. Leveraging its strong connection with the Chongqing government, CXFG benefits from substantial government support, including capital injections, business operation support, government subsidies, and favorable tax policies. Given the important role in Chongqing's finance market, we believe CXFG is likely to receive ongoing government support to support its daily business operation.

Steadily Growing Scale with Moderately High Concentration, but Low Compensation Rate: As of end-2023, the company's guarantee business balance increased to RMB72.4 billion from RMB69.1 billion at end-2022, most of which were direct financing guarantees that provided to local state-owned companies in Chongqing. Chongqing accounted for 41.5% of the company's guarantee business, indicating a relatively high concentration. The predominant sector for the company's guarantee business is residential services, repairs, and other services, constituting 32.6% of the guarantee balance, highlighting a concentrated focus within this industry.

In 2023, the company's guarantee compensation amounted to RMB210 million, primarily attributed to agricultural projects initiated in previous periods. The current guarantee compensation rate stood at 0.63%, marking a decrease from 0.84% in 2022. As of end-2023, the cumulative guarantee compensation rate was 1.68%, maintaining a relatively low level. Additionally, due to well-established counter-guarantee measures, the company's compensation recovery was high.

Strong Capital Base and Moderate Leverage: CXFG's equity capital rose to RMB12.3 billion at end-2023 (RMB9.6 billion at end-2022) following the capital injection from the Chongqing

government. The capital base ranked 1st among all guarantee companies in Chongqing. As a result, the company's outstanding guarantees to capital ratio decreased to 6.6x as of end 2023 (from 7.1x of end-2022). CXFG maintained a low debt scale at end-2023, predominantly comprising long-term borrowings and finance leasing. The cash on hand and at banks exhibited a consistent upward trend over the past years, reaching RMB5.0 billion at end-2023, up from RMB4.4 billion at end-2022.

Stable Profitability and Prudent Investment: The company experienced fluctuating growth in total revenue, reaching RMB1.4 billion in 2023. Despite the impact of various impairment losses and fluctuations in the provision for guarantee compensation, the company's overall profitability remained strong. In 2023, the net profit reached RMB375.2 million, with returns on equity of 2.1%, 3.3%, and 3.4% for the years 2021, 2022, and 2023, respectively. Additionally, interest income and investment returns have become significant contributors to profits. The company primarily invests in structured deposits, funds, bonds, and trusts, indicating a cautious investment approach.

Rating Sensitivities

We would consider downgrading CXFG's rating if there is 1) significant deterioration in its credit profile, such as notably weakened capital adequacy, significant increase in compensation rate, and weakened funding structure etc., or 2) there is perceived weakening in support from the Chongqing government, particularly due to its reduced strategic importance with diminished government functions, or (3) there is a downgrade in our internal credit assessment on the Chongqing government.

We would consider upgrading CXFG's rating if there is an upgrade in our internal credit assessment on the Chongqing government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 CXFG's rating is Lianhe Global's Non-Bank Financial Institutions Criteria published on 21 November 2023 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.

Contact Information

Primary Analyst

Jack Li, CESGA

Analyst

(852) 3462 9585

jack.li@lhratingsglobal.com

Secondary Analyst

Joyce Huang, CFA

Managing Director

(852) 3462 9586

joyce.huang@lhratingsglobal.com

Committee Chairperson

Toni Ho, CFA, FRM

Senior Director

(852) 3462 9578

toni.ho@lhratingsglobal.com

Business Development Contact

Joyce Chi

Managing Director

(852) 3462 9569

joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.