

Chongqing Xingnong Financing and Guarantee Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	A+
Outlook	Stable
Location	China
Industry	NBFI
Date	15 July 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘A+ global scale Long-term Issuer Credit Rating to Chongqing Xingnong Financing and Guarantee Group Co., Ltd. (“CXFG”); Outlook is Stable

Summary

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.

Rating Rationale

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

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Applicable Criteria

[Non-Bank Financial Institutions Criteria \(21 November 2023\)](#)

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 Good Investment Portfolio: 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.

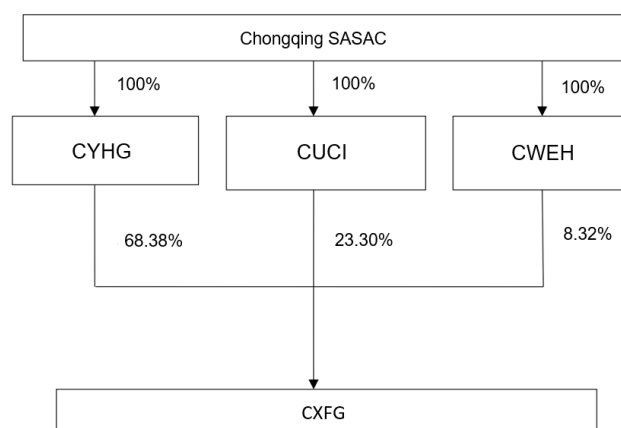
We would consider upgrading CXFG's rating if there is an upgrade in our internal credit assessment on the Chongqing government.

Company Profile

Established in August 2011 by the Chongqing SASAC, CXFG is the first company in China dedicated to providing guarantees for mortgages involving agricultural collective land ownership rights. It also provided financial guarantees for mortgages on agricultural household contractual rights, and land operation rights in Chongqing's rural areas. CXFG has developed a comprehensive guarantee service industry chain by setting up subsidiaries focused on price evaluation, asset management, and intelligent technology. Since 2019, the company has also managed the Chongqing Rural Property Rights Exchange. In 2019, following a local government directive to consolidate guarantee companies across the city, CXFG began to withdraw from some district and county guarantee subsidiaries, gradually shifting its business operations towards market-oriented activities.

As of end-2023, CXFG's registered capital and total equity stood at RMB8.589 billion and RMB12.3 billion, making it the strongest guarantee institution in Chongqing in terms of capital strength. The equity of CXFG was held by three wholly-owned subsidiaries of Chongqing SASAC: Chongqing Yufu Holding Group Co., Ltd. (68.38%) ("CYHG"), Chongqing Urban Construction Investment (Group) Co., Ltd. (23.30%) ("CUCI"), and Chongqing Water Environment Holding Group Co., Ltd. (8.32%) ("CWEH") at end-2023.

CXFG's shareholding structure as of end-2023:



Source: the company and lianhe global

Business Profile

CXFG is a leading financial guarantee company in Chongqing. Specializing in financial guarantee and investment activities, it plays a crucial role in Chongqing's financial system. CXFG is the first

company in China dedicated to providing guarantees for mortgages involving agricultural collective land ownership rights. It also provided financial guarantees for mortgages on agricultural household contractual rights, and land operation rights in Chongqing's rural areas. CXFG's 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 capital strength.

CXFG primarily engaged in the guarantee business and the investment business. The operating income of CXFG mainly consists of premium income, interest income, investment income and other business income. Among them, premium income and interest income are the two major sources of revenue for the CXFG. 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 remained at 1.68%, maintaining a relatively low level. Additionally, due to well-established counter-guarantee measures, the company's compensation recovery rate remained high.

Guarantee Business

The company's guarantee business is divided into financing guarantee business and non-financing guarantee business. The financing guarantee business is further categorized into direct financing guarantees and indirect financing guarantees. The guarantee clients include various city investment enterprises in China, "Three Rural" customers in Chongqing, state-owned enterprises, listed companies and small and medium-sized enterprises. The aforementioned clients are mainly distributed in Chongqing, Hunan, Hubei, Sichuan and Jiangsu. From 2021 to 2023, the company's guarantee transactions fluctuated and grew. Due to regulatory policies on the leverage ratio of financing guarantees, the company reduced the scale of its direct financing guarantee business in 2021 and focused on developing its non-financing guarantee business. In 2022, as some direct financing guarantees matured, the company resumed financing guarantee activities moderately and increased its focus on non-financing guarantees, resulting in a year-on-year growth of 68.2% in guarantee transactions.

The balance of outstanding guarantees also grew each year. 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. From 2021 to 2023, the amount of non-financing guarantee business grew rapidly, and its proportion of the total guarantee transactions increased annually, reaching 48.2% in 2023. The balance of financing guarantee had slightly decreased since 2022 mainly due to the company's reduction in financing guarantee business. The number of customers with outstanding guarantees increased significantly during this period, primarily due to the growth in non-financing guarantee customers.

Financing Guarantees

CXFG conducts direct financing guarantees and indirect financing guarantees businesses.

- Direct Financing Guarantees

CXFG focuses on direct financing guarantees for bond issuance, including corporate bonds, asset-backed securities, and mid-term notes, particularly for local state-owned construction companies. It has been active in this field since 2016, also cooperating with other guarantee institutions through reinsurance. The company sets strict customer admission standards based on local fiscal strength, corporate qualifications, operating indicators, government subsidies, and counter-guarantee measures, and collaborates with 20 securities companies.

From 2021 to 2023, the balance of CXFG's direct financing guarantee responsibilities fluctuated, with a significant scale in urban investment bonds. Regulatory constraints on local government and platform company borrowing highlight the risks involved. The direct financing guarantee business spans 14 provinces, with enterprise bonds being the main focus.

Due to regulatory limits on leverage ratios, CXFG's direct financing guarantee transactions showed a fluctuating decline from 2021 to 2023. In 2021, the company reduced its direct financing guarantee business but resumed normal operations in 2022 and 2023, leading to a year-on-year increase. CXFG uses various counter-guarantee measures, including land and housing mortgages, accounts receivable, and project proceed pledges, with differentiated premium pricing based on counter-guarantee strength.

- Indirect Financing Guarantees

CXFG primarily provides indirect financing guarantees for bank loans to city investment corporations in Chongqing. The company has established business cooperation agreements with several banks, including China's main policy banks. CXFG sources customers through these banks and mainly serves companies and small to medium enterprises (SMEs) in Chongqing. The customer segments include: (i) SMEs and individual entrepreneurs in agriculture and agricultural product processing, (ii) SMEs in transportation, trading, and manufacturing, and (iii) projects financed by the local government, such as industrial park construction, road, water conservancy and hydropower facility construction, and farmland transformation.

CXFG's indirect financing guarantees focus on rural revitalization and industrial transformation. For rural revitalization, the company provides guarantees for policy-based bank loans, emphasizing loans for agricultural industrialization, infrastructure construction, and residential environment enhancement. For industrial transformation, the focus is on higher vocational colleges, the new energy battery sector, the medicine sector, and logistics. CXFG is more cautious in the cultural and tourism sectors due to external environmental factors.

In terms of premium pricing, CXFG follows market-based risk pricing principles and implements relevant fee pricing management methods. The loan rate for industrial projects is determined by customer type, counter-guarantee measures, project type, and other factors. From 2021 to 2023, CXFG's indirect financing guarantee business experienced fluctuating growth. In 2022, the company directed its indirect financing guarantee business towards state-owned enterprises in Chongqing and reduced the average balance of loans. The annual transaction volume for indirect financing guarantees increased by significantly year-on-year.

Non-financing Guarantees

CXFG's non-financing guarantee business mainly includes performance guarantee for construction projects and electronic guarantees, advance payment guarantee, tender guarantee and quality guarantee. CXFG provides performance guarantee for project construction and development in Jiangsu, Sichuan, Liaoning, Shandong, Hebei, Chongqing and other regions. For electronic guarantees, CXFG uses big data for customer selection and risk control.

Investment Business

CXFG utilises its funds for its investment business. CXFG's investment assets include various forms of financial investments, entrusted loans and long-term equity investments. CXFG's equity

investment mainly includes capital contribution to private equity funds. The company's investment portfolio primarily encompasses a range of financial investments, entrusted loans, and long-term equity stakes. Over the past few years, there has been an upward trend in the company's investment assets, which are predominantly due to the increasing of trading financial assets, such as structured deposits and trust fund investments. Debt investments have decreased due to the maturity of certain bond investments, leading to a full impairment recognition for a specific financing plan. Other equity investments have also declined year by year, mainly due to the company reclaiming equity investment funds from various regions.

Entrusted loans have experienced a substantial reduction as the company has adjusted its investment structure to compress the scale of such loans. Despite this reduction, there have been no instances of overdue loans, and the company has made provisions for potential impairments. Long-term equity investments have seen some fluctuations but have overall maintained a slight growth trend, with adjustments made to investments in subsidiaries and other entities to align with the company's strategic direction.

Financial Profile

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 return of equity of 2.1%, 3.3%, and 3.4% for the years 2021, 2022, and 2023, respectively. The ROA and ROE ratio provide further insights into the company's efficiency in generating returns from its assets and equity. Both ratios indicate a dip in 2021 but show a strong recovery and improvement by 2023, reaching 1.9% and 3.4% respectively. These figures demonstrate that CXFG has enhanced its operational efficiency and profitability, and it improved operational practices that leverage its asset and equity base effectively. Additionally, interest income and investment returns have become significant contributors to profits. The company primarily invests in structured deposits, funds, bonds, and trusts, demonstrating a cautious investment approach.

From 2019 to 2021, CXFG's total assets saw a decline, dropping from RMB21.1 billion to RMB18.3 billion. However, the company reversed this trend in 2022, with assets rebounding to RMB20.7 billion in 2023, indicating its strategic response to earlier setbacks and the ability to regain asset value. CXFG's equity capital rose to RMB12.3 billion at end-2023, up from RMB9.6 billion at end-2022, following a capital injection from the Chongqing government. This capital base ranked first among all guarantee companies in Chongqing. Consequently, the common equity to total tangible assets ratio improved to 59.6% from 52.6% in 2022, while the outstanding guarantees to capital ratio decreased to 6.6x from 7.1x.

CXFG's capital adequacy and compensation ability showed a strengthening capital position from 2020 to 2023, despite fluctuations in net asset size. CXFG's guarantee business faces repayment pressures mainly from guarantee projects. In the event of compensation, if the company cannot fully recover, it will bear the losses with its own capital. The company's actual compensation capacity is influenced by factors such as guarantee business risk exposure, capital scale, total debt, debt nature, asset quality and liquidity, and cash flow. At end-2023, the company's outstanding guarantees to capital ratio was 6.6x, and the compensation reserve ratio was 1.7%, indicating strong compensation capability and adequate net capital to cover the risk value of the guarantee business portfolio.

CXFG maintained a low debt scale at end-2023, predominantly comprising long-term borrowings and finance leasing. 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. This

upward trend in liquidity indicates sound financial management, ensuring the company has ample cash reserves to meet its obligations and potential risk events, and invest in growth opportunities.

Exhibit 1: CXFG's Key Financial Metrics

RMB million	2019	2020	2021	2022	2023
Total Assets	21,141.7	20,742.8	18,303.6	18,334.5	20,719.0
Total Equity	9,784.1	10,204.6	9,454.2	9,637.1	12,346.3
Net Profit	256.9	311.2	206.9	319.1	375.2
Return on Average Assets (%)	1.2	1.5	1.1	1.7	1.9
Return on Average Equity (%)	2.6	3.1	2.1	3.3	3.4
Outstanding Guarantees to Capital (x)	5.6	5.3	7.0	7.1	6.6
Common equity to total assets (tangible) (%)	46.3	49.2	51.7	52.6	59.6
Risk Reserves to Outstanding Guarantees (x)	3.2	4.5	4.2	4.4	3.8
Compensation rate on guarantees (%)	2.5	2.5	2.6	2.1	1.7
Debt to Capitalization Ratio (%)	NA	1.7	0.1	0.1	1.1

Source: CXFG and Lianhe Global's calculations

External Support

Government's Ownership and Support

Established in 2011 with the approval of the Chongqing Government and led by the 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.

Strategic Importance

CXFG plays a significant strategic role in regional economic development and financial stability by providing financial guarantees to 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. By focusing on rural property mortgages and expanding services to high-standard farmland transformation and new rural construction, CXFG fosters rural economic growth. Despite market-oriented reforms, the company remains committed to rural infrastructure and key industries, enhancing regional economic stability.

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 these areas replace short-term, high-cost debt with long-term, low-cost debt,

reducing local debt pressure and enhancing risk prevention. In this framework, CXFG received monetary injections of RMB4.0 billion from the Chongqing government. As the sole company designated for regional debt resolution, CXFG is crucial in improving municipal debt management, optimizing local government debt structures, and promoting regional economic development and financial stability.

Economic and Fiscal Condition of Chongqing

Chongqing is the only municipality directly under the central government in the central and western regions of China. It serves as a comprehensive transportation hub connecting the east and west, as well as the north and south of the country. Chongqing is a critical strategic point for the Western Development Program and acts as a key link between the Belt and Road Initiative and the Yangtze River Economic Belt. Its unique and significant role is crucial in China's regional development and its strategy for opening up to the outside world. The GDP of Chongqing grew by 6.1% year-on-year to RMB3,014.6 billion in 2023. The Chongqing government's budgetary revenue increased to RMB244.1 billion in 2023 from RMB210.3 billion in 2022, representing an increase rate of 16%. Chongqing provincial government's financial self-sufficiency rate was low, and its budget deficit widened to -149.8% in 2023 due to larger budgetary expenditure on supporting social initiatives. The outstanding amount of the Chongqing provincial government's debt surged to RMB1,225.8 billion at end-2023, representing a year-over-year growth rate of 21.9%. The debt ratio (total government debt/aggregate revenue) climbed to 122.9% in 2023 from 95.1% in 2022, mainly due to the increase in special debt to support project developments in Chongqing.

Appendix: CXFG's Rating Factors

Key Factors	Weight	Initial Rating
I. Operating Environment	15.00%	bbb+
II. Business Analysis	25.0%	bbb-
III. Governance and Management	5.0%	bbb+
IV. Risk Management and Exposures	20.0%	Bb+
V. Financial Profile	35.0%	a
Stand-Alone Creditworthiness	100.0%	bbb+
VI. External Support		Very Strong
Issuer Credit Rating		A+

Source: Lianhe Global

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