

Zhongyuan Asset Management Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	2 July 2024

Key Figures of Henan and Zhongyuan AMC

(RMB billion)	2022	2023
Henan		
GDP	5,822.0	5,913.2
GDP growth rate (%)	2.4	4.1
Budgetary revenue	425.0	451.2
Government fund	221.3	193.6
Transfer payment	572.5	600.7
Budgetary expenditure	1,064.7	1,045.0
Zhongyuan AMC		
Assets	70.7	72.5
Equity	16.2	16.1
Revenue	3.1	4.0

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

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

Summary

The Issuer Credit Rating upgrade reflects the company’s strengthening strategic importance in Henan Province (“Henan”) and an upgrade in our internal credit assessment on the People’s Government of Henan Province (“the Henan provincial government”). As a key financial company under the Henan provincial government, Zhongyuan AMC is increasingly involved in major provincial strategies of financial institutions consolidation and reconstruction, maintaining the regional financial stability, preventing and resolving local government debt risk, and promoting industrial transformation and upgrade in Henan, following the government’s policies.

We believe the Henan provincial government would provide strong support to Zhongyuan AMC if needed, in light of its majority indirect ownership of Zhongyuan AMC, Zhongyuan AMC’s strategic position as a major financial assets management company (“AMC”) in 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 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.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD notes issued by Zhongyuan AMC’s indirect wholly-owned subsidiary, Zhongyuan Dayu International (BVI) Co., Ltd., which is unconditionally and irrevocably guaranteed by Zhongyuan AMC to ‘A+’ from ‘A-’ at the same time. A full list of Issuance Rating is included in this report.

Rating Rationale

Government’s and Government Supervision: Finance Bureau of Henan Province (“Finance Bureau”), as the actual controller of the company, owns 78.5% shares of Zhongyuan AMC, 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%). 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, investment and financing plans.

Strategic Importance and Strategic Alignment: As a major local AMC in Henan, Zhongyuan AMC plays an important role in resolving financial risks and maintaining the

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Applicable Criteria

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

financial stability within the region. Its strategic planning and development have been aligned with the local government's economic and social policies.

Zhongyuan AMC has acquired a mega distressed financial assets package, amounting to RMB20.2 billion to facilitate Zhongyuan Bank's merger of other three city commercial banks, a key initiative of the Henan provincial government to build a flagship bank with trillion assets in Henan. We expect the company to continued supporting local financial institutions' consolidation and reconstruction, and to carry out other tasks designed by the Henan provincial government, such as maintaining the regional financial stability, preventing and resolving local government debt risk, and promoting industrial transformation and upgrade in Henan.

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 Zhongyuan AMC's registered and paid-in capital were enlarged to RMB10 billion. In addition, Zhongyuan AMC received ongoing operational subsidies. 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 economic rebounded in 2023 after Covid. Its GDP reached RMB5,913.2 billion in 2023, representing a year-on-year growth rate of 4.1%, up from 3.1% in 2022. The budgetary revenue of the Henan government also increased from RMB426.2 billion in 2022 to RMB451.2 billion in 2023. Its financial self-sufficiency rate of Henan was weak but slightly improved, with the budget deficit narrowing to -145.2% in 2023 from -149.8% in 2022. The transfer payment from the central government increased from RMB573.2 billion in 2022 to RMB601.1 billion in 2023, accounting for almost half of aggregate fiscal revenue.

The outstanding amount of the Henan government's debt continued to grow in 2023, mainly due to the rise in special debts to support public projects within the region. By the end of 2023, the Henan government's outstanding debt was RMB1,789.3 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was elevated to 141.9% at end-2023 from 122.9% at end-2022.

Zhongyuan AMC's Financials and Liquidity Position Zhongyuan AMC's total asset grew steadily to RMB73.9 billion at end-March 2024 from RMB70.7 billion at end-2022, as the company continued to participate in distressed asset management business in Henan. The company's total debt was largely stable over the same period (end-March 2024: c. RMB49.0 billion). As a result, its financial leverage, as measured by debt/ capitalization, stabilized at a moderately high level of c. 75%.

Zhongyuan AMC's short-term debt servicing pressure is moderately high. At end-March 2024, Zhongyuan AMC had an unrestricted cash balance of RMB3.2 billion, compared with debt due within one year of RMB18.4 billion. Yet as a local AMC, the company has access to multiple financing channels, including bank borrowings, bond issuance and non-traditional financing, to support its business operations and debt repayment. At end-March 2024, the company had unused bank facilities amounting to RMB32.8 billion and available bond issuance quotas of RMB8 billion and USD500 million in onshore and offshore, respectively.



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 upgraded to 'A+' from 'A-'

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