

Zhuhai Rural Commercial Bank Co., Ltd.

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Banking
Date	9 April 2025

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 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 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 good capital adequacy and liquidity.

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 islands. As of the end of 2023, Zhuhai Rural Commercial Bank held market shares of 5.53% and 4.40% in deposit and loan businesses, respectively, among financial institutions in Zhuhai, which were behind stated-owned giants but ahead of an array of national players.

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: As Guangdong Rural Credit Union turned over the management control of ZRCB to the Zhuhai government in 2021, ZRCB has become a financial institution directly managed by the Zhuhai government. As of the end of 2023, the Zhuhai government holds 43.22% shares of ZRCB through SOEs in Zhuhai.

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.

We believe Zhuhai government has strong ability to provide support, considering that Zhuhai is an important city in economically well-developed Greater Bay Area and one of five economic special zones in China. Zhuhai’s GDP grew by 3.5% to RMB447.9 billion in 2024.

Stable Funding and Good Liquidity: The strong network provides stable funding to ZRCB. By end-September 2024, customer deposits contributed over 90% to the bank’s total funding, of which c. 66% was time deposits. In addition, the bank holds sizeable high liquidity investment assets (e.g. government bonds) to support its short-term liquidity needs.

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Applicable Criteria

Banking Rating Criteria (20 March 2023)



Capitalization Remained Adequate: 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, which greatly enhanced the bank's loss absorption capacity and viability, as well as support its business growth.

ZRCB's asset expansion after the private placement, especially in corporate loans to support the real economy, significantly consumed its capital. In addition, ZRCB repaid Tier 2 capital bonds of RMB1.2 billion in 2023. Yet, ZRCB's capital adequacy ratio stayed at 16.38% at end-2024, well above the regulatory requirement.

Under Pressure Loans Quality and Profitability: The asset quality of ZRCB's loans was under pressure as the weak economy impaired borrowers, especially MSMEs' loan repayment ability. The bank recorded credit impairment losses of RMB447 million and RMB668 million in 2023 and the first nine months of 2024, respectively, up from RMB192 million in 2022. Moreover, the bank's net interest margin has demonstrated a downward trend since 2020, dropped to 1.50% in 2024 from 2.38% in 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.

ZRCB's ROE and ROA decreased to 3.88% and 0.42% in 2024, down from 7.51% and 0.79% in 2022, respectively. Nevertheless, its non-performing loan ratio stayed at a better than peer level of 1.32% at end-2024, as the bank adopted multiple measures to accelerate the disposal of non-performing assets.

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.

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-'

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 SOEs in Zhuhai, and the Guangdong Rural Credit Union has turned over the management control of ZRCB to the Zhuhai government since 2021.

As a rural commercial bank, ZRCB focus on MSMEs, agricultural and rural clients and inclusive finance businesses. Given the bank's established network and government background in Zhuhai, it has accumulated a strong deposit base through retail time deposits, SOE deposits, and social security funds, etc. In recent years, ZRCB also actively develop manufacturing borrowers to diversified its loan portfolio.

ZRCB's total loan and deposit balance grew steadily in the past three years, reaching RMB51.3 billion and RMB67.2 billion at end-September 2024, respectively, up from RMB37.7 billion and RMB53.1 billion at end-2021.

ZRCB's Summary Financials and Key Ratios

(RMB million)	2021	2022	2023	2024.9
Total Assets	68,017	79,445	91,409	91,790
- Cash	4,774	4,407	7,331	4,480
- Deposits and placements with banks and other financial institutions	1,812	1,971	1,865	1,807
- Loans and advances to customers	36,651	41,056	46,107	49,670
- Investment Assets	23,128	30,934	35,019	34,300
Total Liabilities	62,244	69,634	81,126	81,562
- Customers deposits	53,110	57,195	65,441	67,249
- Market fundings	5,564	8,533	11,085	7,466
Operating Revenue	1,574	1,545	1,810	1,267
- Net interest income	1,298	1,303	1,317	923
- Net fee and commission incomes	33	40	42	40
- Investment income	211	134	306	177
- Fair value changes	6	-14	85	109
Operating expense	-978	-880	-1,148	-1055
- SG&A	-637	-667	-678	-376
- Impairment charges	-322	-192	-447	-668
Pre-impairment operating profit	917	855	1,114	883
Net Profit	541	585	601	162
Profitability				
Net interest margin (%)	2.11	1.96	1.81	1.58
ROA (%)	0.82	0.79	0.70	-
ROE (%)	9.59	7.51	5.98	-
Capital Adequacy				
Capital adequacy ratio (%)	15.89	20.59	18.08	16.92
Core tier-1 capital adequacy ratio (%)	11.89	17.19	16.93	15.79
Liquidity and Funding				
Gross loans and advances to customer deposits (%)	70.94	73.78	72.29	76.14
Customer deposits to total funding (%)	90.52	86.20	85.51	90.01

Source: ZRCB and Lianhe's calculations



Appendix I: ZRCB's Shareholding Structure

ZRCB's Top 10 Shareholders at end-2024

Shareholders (by group)	Total Shareholding
1. Zhuhai Huafa Group Co., Ltd., Zhuhai Huafa Investment Holding Group Co., Ltd. (珠海华发集团有限公司, 珠海华发投资控股集团有限公司)	9.90%
2. Hengqin Financial Investment Group Co., Ltd., Zhuhai Market Operation Group Co., Ltd., Zhuhai Gree Construction Investment Co., Ltd. (横琴金融投资集团有限公司, 珠海市市场经营集团有限公司, 珠海格力建设投资有限责任公司)	9.89%
3. Zhuhai Kechuang Hongyuan Investment Co., Ltd. (珠海科创弘源投资有限公司)	8.97%
4. Zhuhai Dahengqin Development Co., Ltd. (珠海大横琴发展有限公司)	8.10%
5. Guangdong Energy Group Finance Co., Ltd. (广东能源集团财务有限公司)	6.61%
6. Wens Foodstuff Group Co., Ltd. (温氏食品集团股份有限公司)	6.61%
7. Zhuhai Zhukuang Group Holding Co., Ltd. (珠海市珠光集团控股有限公司)	5.26%
8. Hebei Puyang Industrial Group Co., Ltd. (河北普阳实业集团有限公司)	4.00%
9. Zhuhai Mingzhi Real Estate Co., Ltd. (珠海鸣志房地产有限公司)	2.99%
10. Chengdu Local Construction Mechanization Engineering Co., Ltd. (成都地方建筑机械化工程有限公司)	1.60%
Total	63.93%

Source: ZRCB

Appendix II: ZRCB's Rating Factors

Rating Factors	Weight	Initial Rating
I. Operating Environment	20%	bbb+
II. Business Profile	15%	b-
III. Governance and 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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