

## 2019 Credit Outlook for China Financial Leasing Sector

### China Lianhe's Viewpoints on the China Financial Leasing Sector

- Shareholder support and resilience and stability of financial leasing companies' operation are key considerations in assessing China financial leasing sector's credit profiles.
- Business growth has slowed down since 2018 amid the tightening regulatory supervisions and financing environment, although major financial leasing companies have maintained better business momentum.
- Previously Ministry of Commerce ("MOFCOM")-regulated companies still rely on bank loans for funding. However, these companies show greater preference for bond issuances than related parties borrowing. While China Banking and Insurance Regulatory Commission ("CBIRC")-regulated financial leasing companies had issued large amount of new bonds in 2018, bank loans remain their primary source of funding.
- The financial leasing sector has not showed significant asset quality deterioration since 2018. The asset quality of CBIRC-regulated companies is more resilient than that of previously MOFCOM-regulated companies.

### Outlook

- Fiscal and monetary policies may be loosened to act as counter-measures to a still healthy but potentially teetering economy, which may improve the funding of financial leasing companies moderately. However, performance divergence may continue.
- Financial leasing companies with larger business exposure to cyclical industries would likely face higher credit risks. Competing on homogeneous products may limit the bargaining power of financial leasing companies, thereby constraining their business expansion and earning growth.
- China has unified the supervision on financial leasing companies by transferring MOFCOM's regulatory responsibility to the CBIRC. We consider that the change will strengthen the supervision and improve the whole industry's business stabilities and compliance, although such policy implementation may take time.

For more details, please refer to the Chinese report:

《2019 年中国融资租赁行业信用风险展望》

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