

South Industry Assets Management Co., Ltd.'s 2019-1 Corporate Bonds

Credit rating for this Bond: AA+

Credit rating of the issuer: AA+

Rating outlook: Stable

Scale of this issuance: No more than CNY 500 million (inclusive)

Maturity of this Bond: The current issue consists of two products. Product 1 is a 3-year fixed rate bond, with the Company having the option of adjusting the coupon rate at the end of the first and second year and the investors having a put option to sell back the bonds; Product 2 is a 5-year fixed rate bond, with the Company having the option of adjusting the coupon rate at the end of the third year and the investors having a put option to sell back the bonds

Debt servicing method: Annual interest payment, bullet repayment of principal at maturity, with the interest for the final year at maturity paid together with the principal

Rating Assigned Date: July 24, 2019

Key financial data:

Item	2016	2017	2018	Mar. 2019
Total assets (CNY 100mn)	107.38	103.88	101.13	102.69
Owners' equity (CNY 100mn)	52.64	57.02	65.18	67.05
Long-term liabilities (CNY 100mn)	--	--	10.00	10.00
Total liabilities (CNY 100mn)	31.04	40.89	31.54	31.54
Revenue (CNY 100mn)	1.49	1.93	2.01	0.49
Investment income (CNY 100mn)	8.49	11.78	11.29	1.16
Net profit (CNY 100mn)	7.05	6.93	2.17	0.55
Net cash flow from operating activities (CNY 100mn)	-0.75	-1.06	-1.58	-0.54
Operating profit margin (%)	20.97	32.49	31.38	28.18
ROE (%)	14.06	12.63	3.55	0.83
Debt-to-asset ratio (%)	50.98	45.11	35.55	34.70
Total debt capitalization ratio (%)	37.10	41.76	32.61	31.99
Current ratio (x)	0.51	0.76	1.61	1.79
Quick ratio (x)	0.49	0.74	1.55	1.74
EBITDA (CNY 100mn)	8.34	9.68	4.00	--
EBITDA-to-interest coverage ratio (x)	9.10	6.84	2.36	--
Debt to EBITDA ratio (x)	0.27	0.24	0.13	--
EBITDA / scale of this Bond (x)	1.67	1.94	0.80	--

Note: 1. Due to rounding, there may be a slight difference between the sum of sub-totals and the total in this report; unless otherwise stated, all financial data are in the unit of RMB; 2. Unless otherwise stated, the data in this report are on the basis of consolidated financial statements; 3. The financial data for the first quarter of 2019 have not been audited, and relevant indicators have not been annualized; 4. The scale of the current issuance is calculated based on CNY 500 million.

Rationale:

United Credit Ratings Co., Ltd.'s (hereinafter referred to as "United Ratings") ratings assigned to South Industry Assets Management Co. Ltd. (hereinafter referred to as the "Company" or "South Industry Assets") reflect the fact that the Company has certain resource and information advantages as the asset management platform charged with maintaining and increasing the value of the state-owned assets of its parent company, China South Industries Group Corporation (hereinafter referred to as "CSGC"). The Company is mainly engaged in equity and industrial investment, securities and financial investment and asset management. In equity and industrial investment, it mainly focuses on the relevant industries its parent is engaged in. In recent years, the Company's business has developed steadily, with stable revenue and investment income, and a relatively low level of financial leverage and debt burden. CSGC is capable of providing a relatively high level of support to the Company in terms of business resources and capital. The Company's capital strength was further enhanced following the 2018 capital injection of CNY 1 billion from its parent.

United Ratings also notes that due to the risks involved in some trust projects invested by the Company, it has increased its provisions for asset impairment losses, which has caused a decline in the Company's profits; At the same time, the Company's investment business makes a relatively large contribution to its profit. This is vulnerable to the adverse impact of external market conditions, the economic environment and policy changes. There are fluctuations in its investment income.

In the future, as the Company's portfolio of equity and industrial investment projects mature, profit and profitability are expected to continue to grow, enhancing its overall strength further. United Ratings' rating outlook for the Company is

“stable”.

Based on a comprehensive assessment of the bond issuer’s long-term credit profile and its ability to repay debts associated with the bond, United Ratings concludes that the risk of default on this bond repayment is very low.

Strengths:

1. The Company is a wholly-owned subsidiary of CSGC, which has great financial strength and can provide strong support to the Company in terms of management, platforms, channels, resource sharing, business collaboration, etc. The Company’s capital strength has been further enhanced following a capital injection of CNY 1 billion from the parent in 2018.

2. The Company is a comprehensive asset manager with strong operational strength in three major business lines - equity and industrial investment, securities and financial investment and asset management. The Company’s business has developed steadily in recent years, showing a relatively stable revenue and investment income.

3. In recent years, the Company’s asset-liability ratio has dropped to a relatively low level, making for a reasonable overall debt burden. Thus, it has a considerable flexibility in financial leverage.

Concerns:

1. The Company’s overall profit is highly dependent on its investment business, which is greatly affected by the external economic environment and policy changes. This implies a relatively high overall risk and the risk of fluctuations in investment income.

2. In 2018, due to some trust projects invested by the Company having impairment risk, the Company made relatively large provisions for asset impairment losses, causing a decline in its profits in the period. Subsequent recovery of the funds for projects with risks will need watching, as there may be increased risk of losses.

Analysts

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