

CMBI Credit Commentary

HRINTH – Look out for recapitalization post 1H2021 results

FY20 recorded sizeable impairment but positive equity remains. We view this indicates regulators' intention to maintain Huarong as a going-concern.

In FY2020, Huarong booked a credit impairment loss of RMB107.8bn, resulting in a net loss of RMB102.9bn net loss attributable to equity holders. Equity reserve attributable to the company was cut to RMB18.2bn (ROE: 1.1%), from RMB121.3bn in FY2019 (ROE: 7.1%), but positive equity remains. In addition, 1H2021 Huarong's operation showed a normalized performance with total income and profit before tax grew by 1% and 10%yoy respectively.

Huarong did not reveal amount and timeline of strategic investors' capital injection, but management mentioned the final number of strategic investors will likely be more than previously announced - CITIC Group, China Insurance Investment Co. Ltd, China Life Asset Management, China Cinda and Sino-Ocean Capital Holding. FY2020 annual report also cited while Huarong did not comply with regulatory requirements on minimum CAR (Tier2 Capital Adequacy Ratio: 12.5%) at FYE2020, the company will replenish its capital by introducing strategic investors for injecting capital and other measures.

We view such a consortium of strategic investors are essentially appointed by policymaker, and that this kind of Government support will not change course in a short period of time. **We maintain our view that short-end of Huarong's curve '21-'22 will be money good.**

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