



China Securitization Performance Watch 2Q 2024

Weak Issuance Will Likely Persist

S&P Global
Ratings

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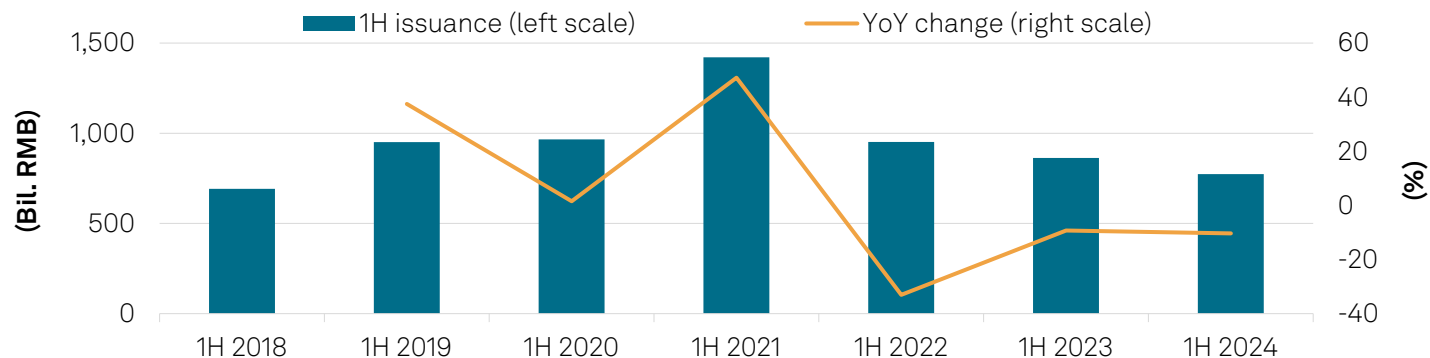
Structured Finance, North Asia
(ex. Japan)

August 9, 2024

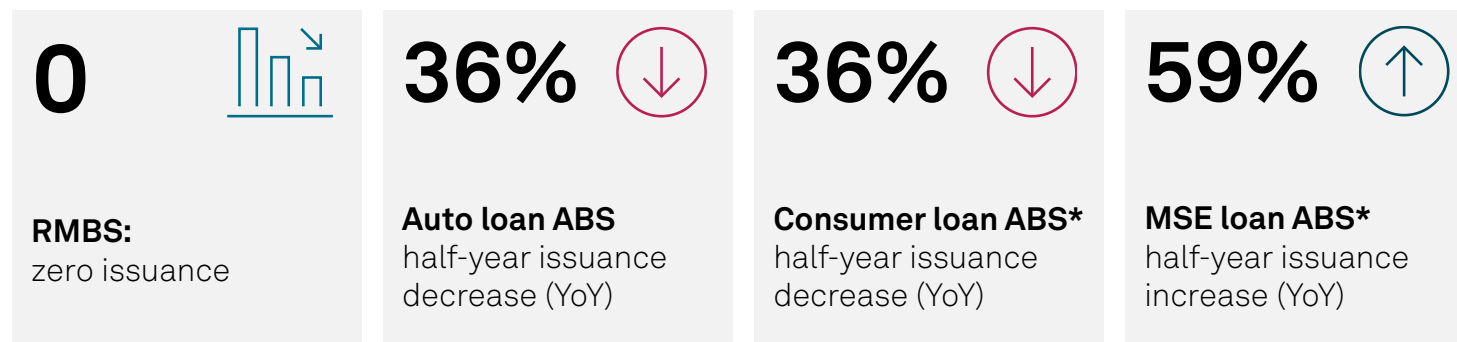
This report does not constitute a rating action

Key Takeaways

1H issuance slips to a 5-year low



Main sectors to watch



- New securitization issuance fell 10% year on year (YoY) in 1H 2024 to Chinese renminbi (RMB) 774 billion (US\$107 billion). We have trimmed our 2024 issuance forecast to RMB1.65 trillion, down 12% from 2023.
- 1H issuance slowed substantially in some key sectors such as auto loan asset-backed securities (ABS), supply chain ABS, commercial mortgage-backed securities, and lease receivables ABS under the China Securities Regulatory Commission (CSRC) scheme.
- Collateral performance was mixed for the second quarter. Auto and consumer loan ABS reported increased delinquencies, while severe arrears in residential mortgage-backed securities (RMBS) dropped. Given tepid economic conditions, we expect volatility to remain elevated for the next one to two quarters.

Data includes issuance under the credit ABS securitization (CAS) scheme managed by the NFRA and the PBOC, the securitization scheme managed by the China Securities Regulatory Commission (CSRC), and the asset-backed notes (ABN) scheme managed by China's National Association of Financial Market Institutional Investors (NAFMII). RMB--Chinese renminbi. MSE--Micro and small enterprises. *Under CAS scheme only. Source: WIND; compiled by S&P Global Ratings.

Key Changes In Q2 2024

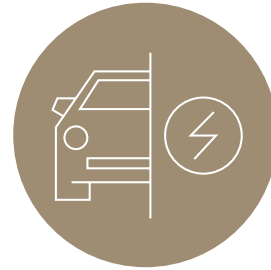
China's economic conditions remain subdued



Strong growth in Q1 led by robust manufacturing, but demand remains soft. We revised our 2024 GDP growth forecast to 4.8% from 4.6%. Our forecast factors in the combination of subdued consumption and robust manufacturing investment.



Auto growth to decelerate. Growth in China's domestic light vehicle sales will slow to 2%-4% annually in 2024, from 5.6% in 2023. Unit sales in Q1 rose by over 6%, driven by a low base and continued price cuts.



Domestic electric vehicle sales to grow at a slower pace. Sales to grow 15%-20% per annum over 2024-2025, dominated by local brands. EV penetration to rise to 35%-40% in 2024-2025.



China property sales have yet to bottom, despite bolder stimulus. We estimate that annual national sales will drop to and stabilize at RMB10 trillion this year, and then follow an extended L-shaped recovery. Our forecast assumes a 10%-15% drop from 2023.



China's retail sales will expand slightly less than GDP in 2024. We project annual consumption growth at 3.8%-4.3% over 2024-2025. We believe the era of rapid 7%-10% annual retail sales growth is largely behind us.

EV--Electric vehicle. Source: S&P Global Ratings.

Key regulatory update

PBOC and NFRA introduced policies to boost the real estate sector

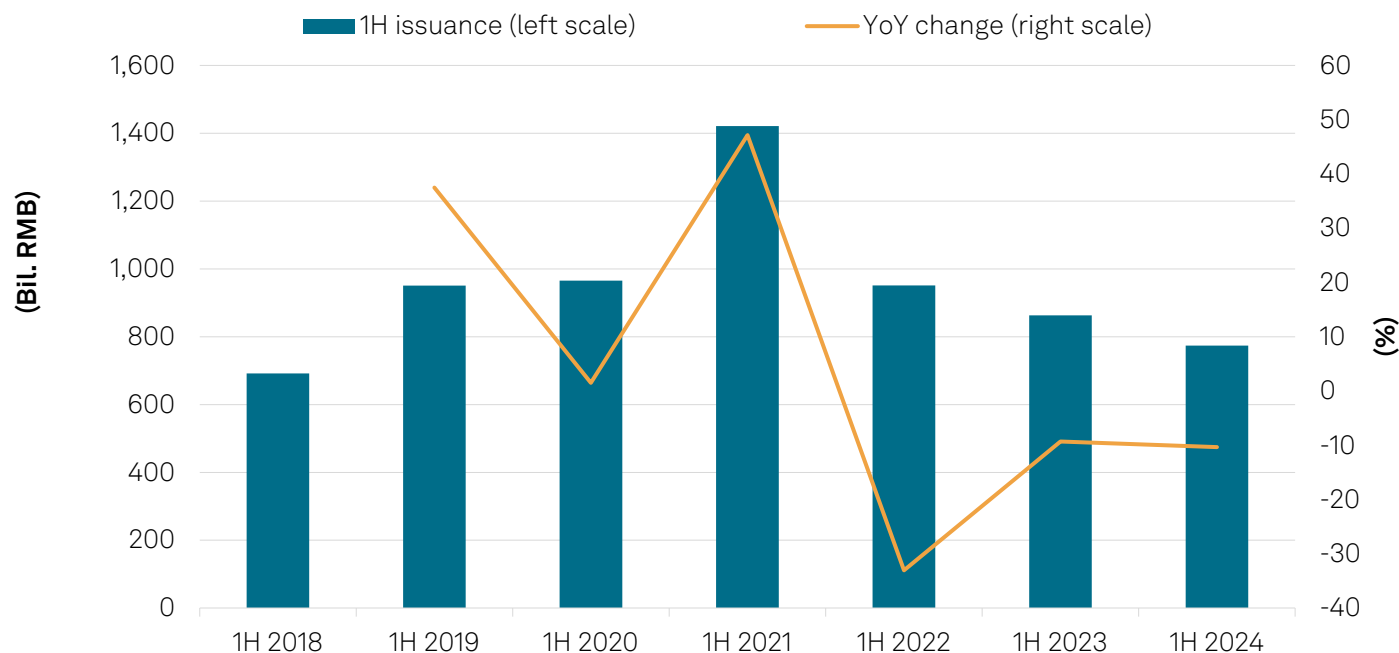
- In May 2024, the PBOC and NFRA unveiled a series of measures for residential mortgages.
- The regulators lowered the minimum down payment ratios for residential mortgages to 15% for first-home purchases and 25% for second-home purchases, from 20% and 30%, respectively.
- The authorities abolished the floor level of interest rates on first- and second-home mortgages across the country. PBOC also lowered the interest rates for housing provident fund loans by 25 basis points (bps), to 2.85% for first-home purchases and to no lower than 3.325% for second-home purchases, if the loan tenor is five years or longer.
- In our view, these measures lower the hurdles for potential homebuyers, though the effect of these measures remains to be seen.
- RMBS issuance has remained stalled since Q1 2022. We maintain our view that RMBS issuance may only resume in the second half of 2025 at the earliest, based upon sector fundamentals. We have not observed new signs that warrant a change to our current view.

Issuance And Coupon Trends



New Issuance Trends

Securitization issuance in 1H 2024 remained subdued

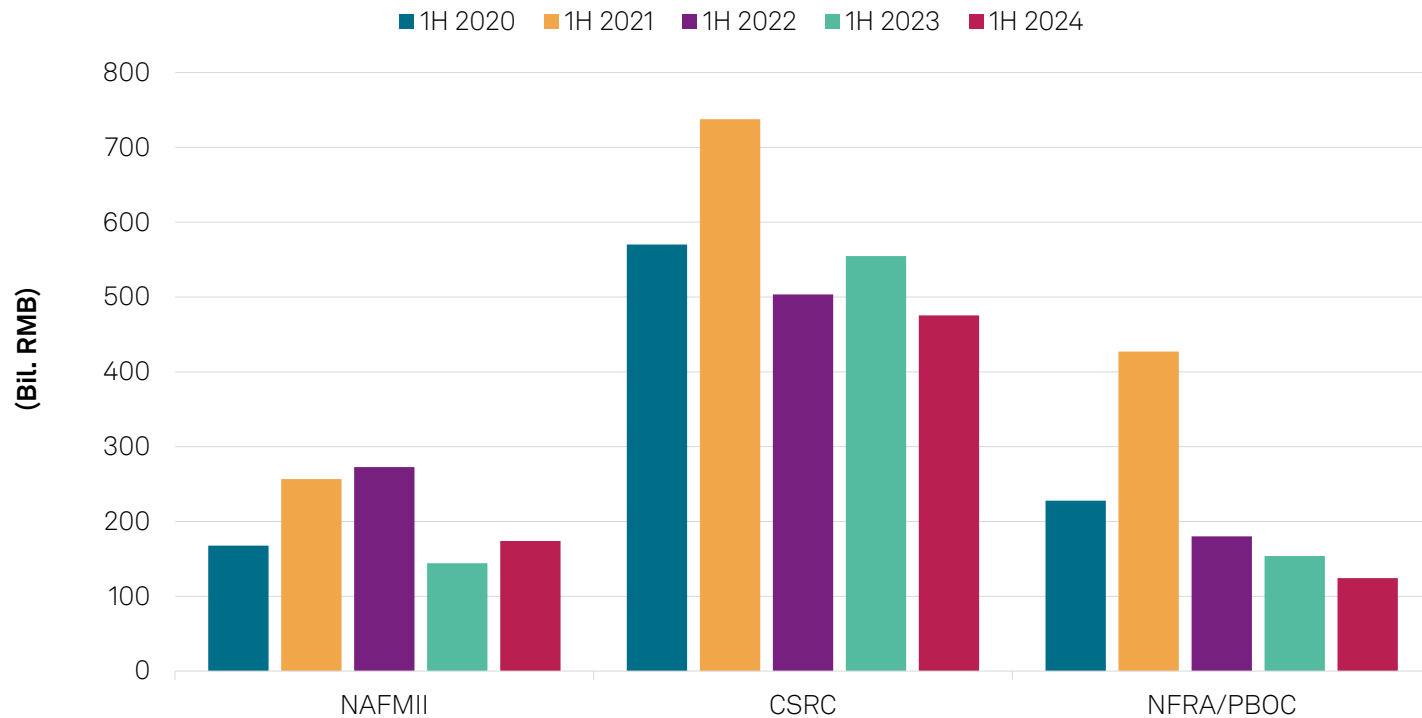


Data includes issuance under the CAS scheme managed by the NFRA and the PBOC, the securitization scheme managed by the China Securities Regulatory Commission (CSRC), and the asset-backed notes (ABN) scheme managed by China's National Association of Financial Market Institutional Investors (NAFMII). YoY--year-on-year. Source: WIND; compiled by S&P Global Ratings.

- New securitization issuance fell 10% YoY to RMB774 billion (US\$107 billion) in 1H 2024.
- The issuance of some major types of asset securitizations has declined, including auto loan ABS and consumer loan ABS, under the CAS scheme, and lease receivables ABS under the CSRC scheme.
- Issuance grew for a few asset types in 1H 2024. Consumer loan ABS (on exchange and under CSRC scheme) rose by 42% YoY. Account receivables ABS issuance under CSRC scheme also increased by 42% YoY. MSE loan ABS issuance under the CAS scheme increased 59%.
- We expect total issuance to decline by 12% in 2024. Issuance prospects will depend on the fundamentals of the respective sectors and China's economic growth.

Varying Issuance Trends For Different Schemes

Issuance trend varies under different schemes

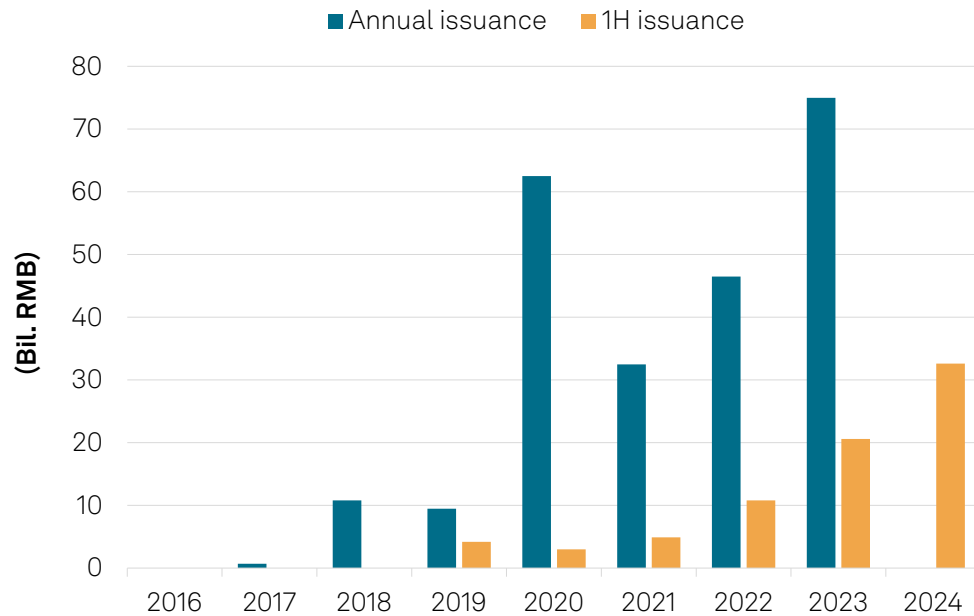


NAFMII--China's National Association of Financial Market Institutional Investors; CSRC--China Securities Regulatory Commission; NFRA--National Financial Regulatory Administration; PBOC--The People's Bank of China. Source: WIND; compiled by S&P Global Ratings.

- CAS managed by NFRA and the PBOC totaled RMB124 billion in 1H 2024, down 19% YoY. This is mostly due to a decline in auto loan ABS issuance.
- Issuance under the CSRC scheme dropped to RMB476 billion in 1H 2024, indicating a YoY decline of 14%.
- Issuance under the National Association of Financial Market Institutional Investors scheme amounted to RMB174 billion in 1H 2024, up 21% YoY.
- Leasing and factoring companies remained active in ABS issuances in the exchange market for fundraising. Lease-backed securitization issued under the CSRC scheme made up over 15% of aggregative new securitization issuance in 1H.

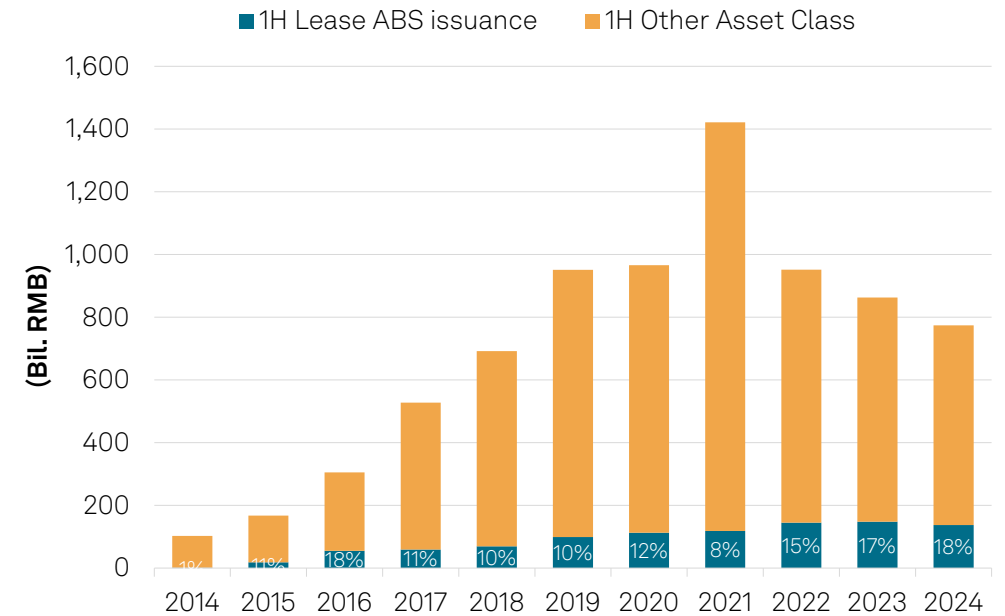
Other Top Trends To Watch

1H MSE loan ABS issuance rose 59% YoY



MSE--Micro and small enterprises. Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

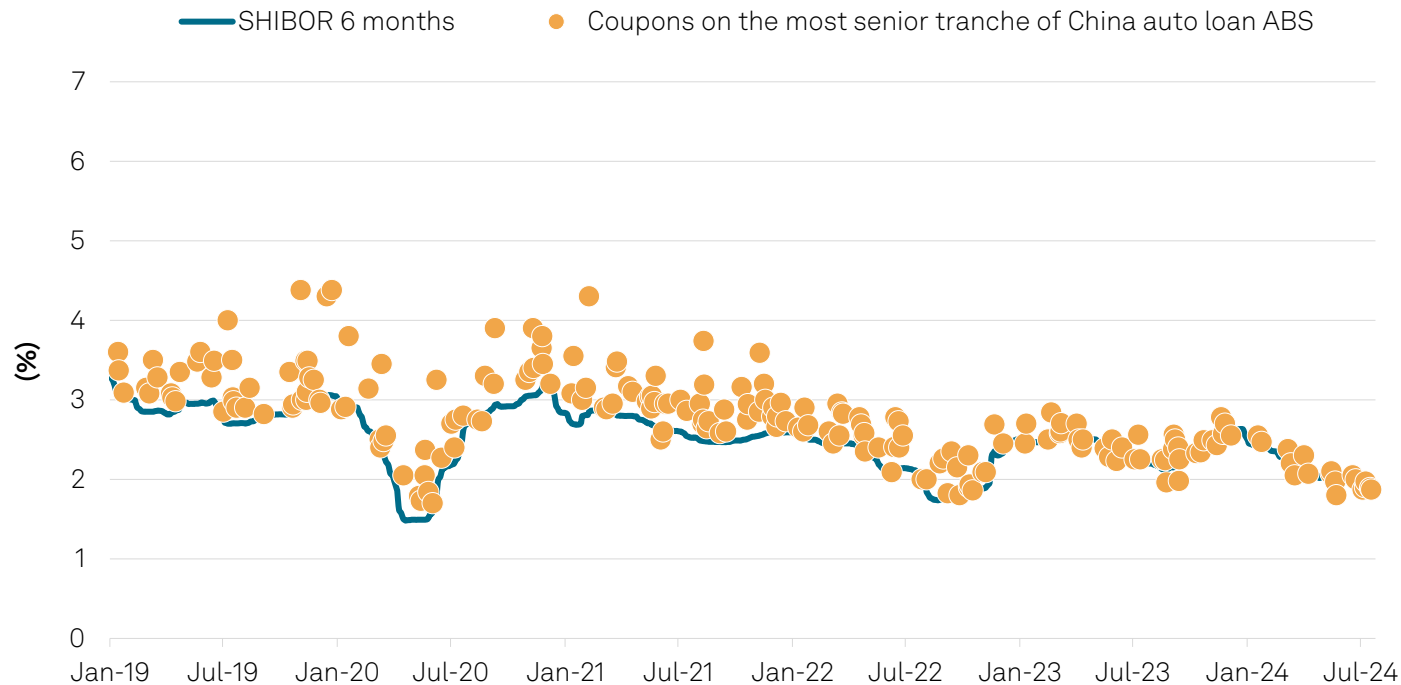
Growing proportion of lease-backed securitization



Source: WIND; compiled by S&P Global Ratings.

Auto Loan ABS Yield

Coupons on the most senior tranches of China auto loan ABS priced low in 2Q 2024



Only coupons of Class A or Class A1 of the transaction are included. Sources: National Interbank Funding Center, Chinabond; compiled by S&P Global Ratings.

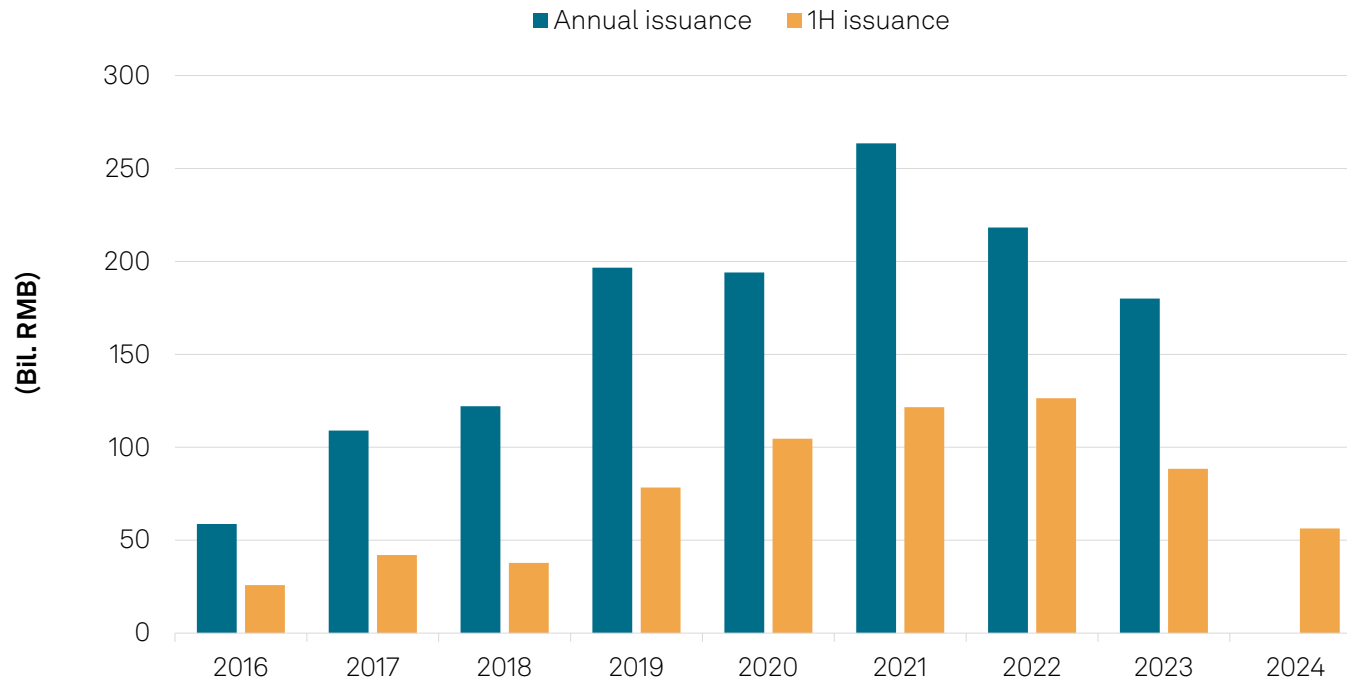
- China lowered long and short-term benchmark lending rates in July. The one- and five-year loan prime rates (LPR) were both trimmed 10 bps to 3.35% and 3.85%, respectively. This is the second rate cut in 2024, following a 25bps reduction to the five-year LPR in February. The level of inflation and the pace of economic growth in China will determine the future pace of interest rate changes, in our view.
- The six-month Shanghai Interbank Offered Rate (SHIBOR) continued to drop. SHIBOR was 1.98% in late June, down from 2.2% as of end-March.
- Following the trajectory of SHIBOR, coupons on the most senior tranches of auto loan ABS fell to 1.8%-2.3% over 2Q 2024 from 2.1%-2.6% in 1Q 2024.

Auto Loan ABS



Auto Loan ABS Issuance

Slow auto sales and loan originations drag issuance



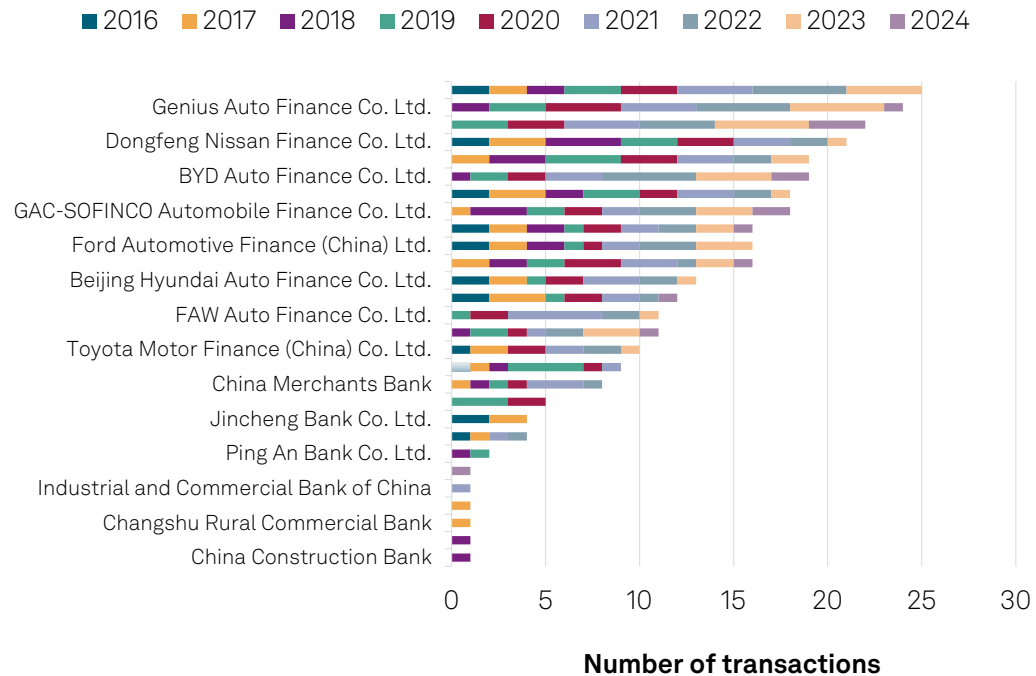
Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- Auto loan ABS issuance volume fell 36% in the first half of 2024 to RMB56.4 billion. Thirteen transactions were issued in the first half, down from 17 during the same period a year earlier.
- Slow growth in auto sales, falling loan penetration, and active issuance of financial debentures likely contributed to the drop.
- To cope with intensifying competition from banks, some auto finance companies have launched more customized products such as longer tenor, low loan-to-value, and value-added products.
- We expect auto ABS issuance to stay lukewarm in 2024, depending on originators' funding needs, asset-liability duration management, and preferred funding mix.

Auto Loan ABS Issuance

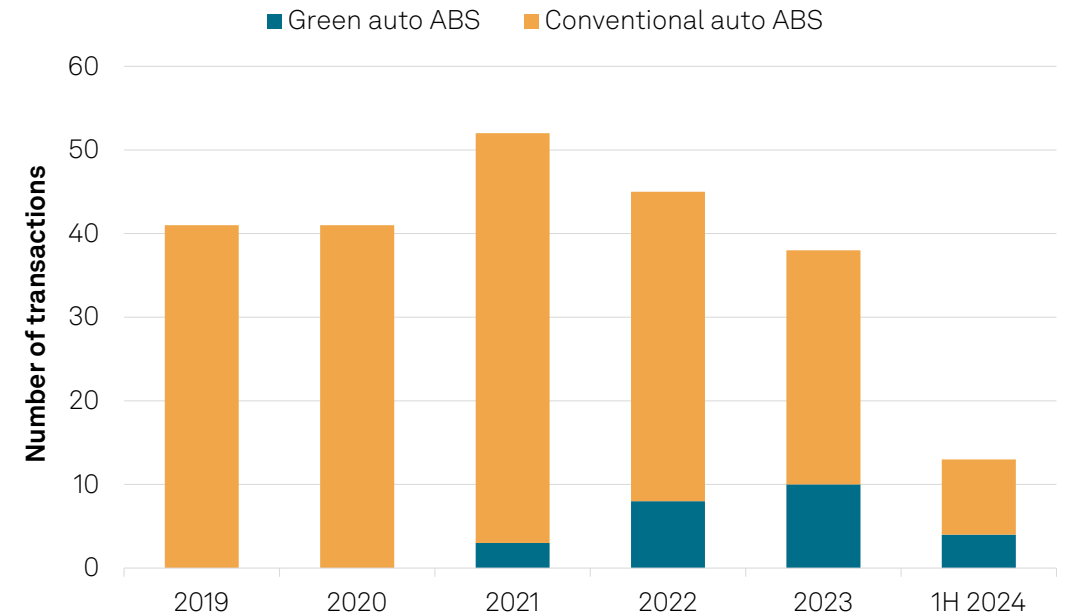
Green ABS issuance momentum persists

Number of auto loan ABS transaction by originator



Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC.
Source: WIND; compiled by S&P Global Ratings.

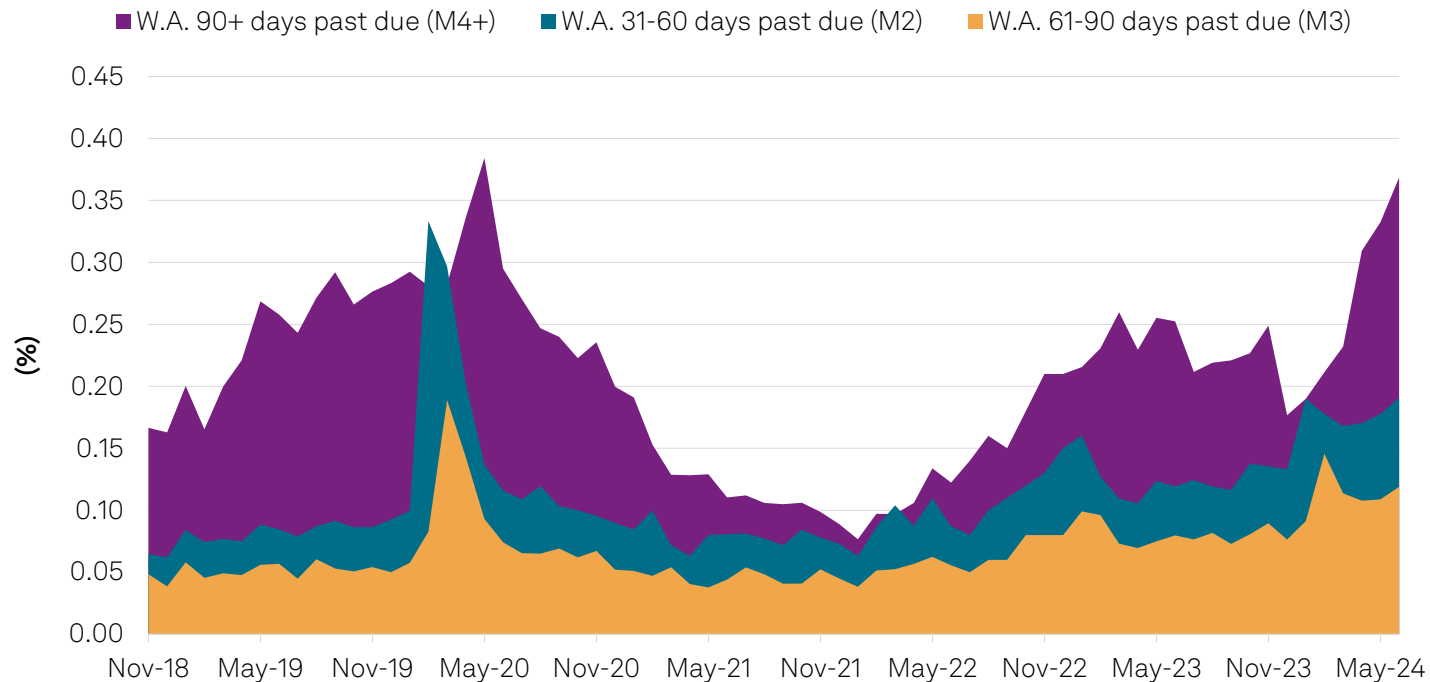
Green auto ABS contributed 31% of 1H auto issue count



Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC.
Source: WIND; compiled by S&P Global Ratings.

Auto Loan ABS Performance

Weighted-average asset delinquency rates remain elevated

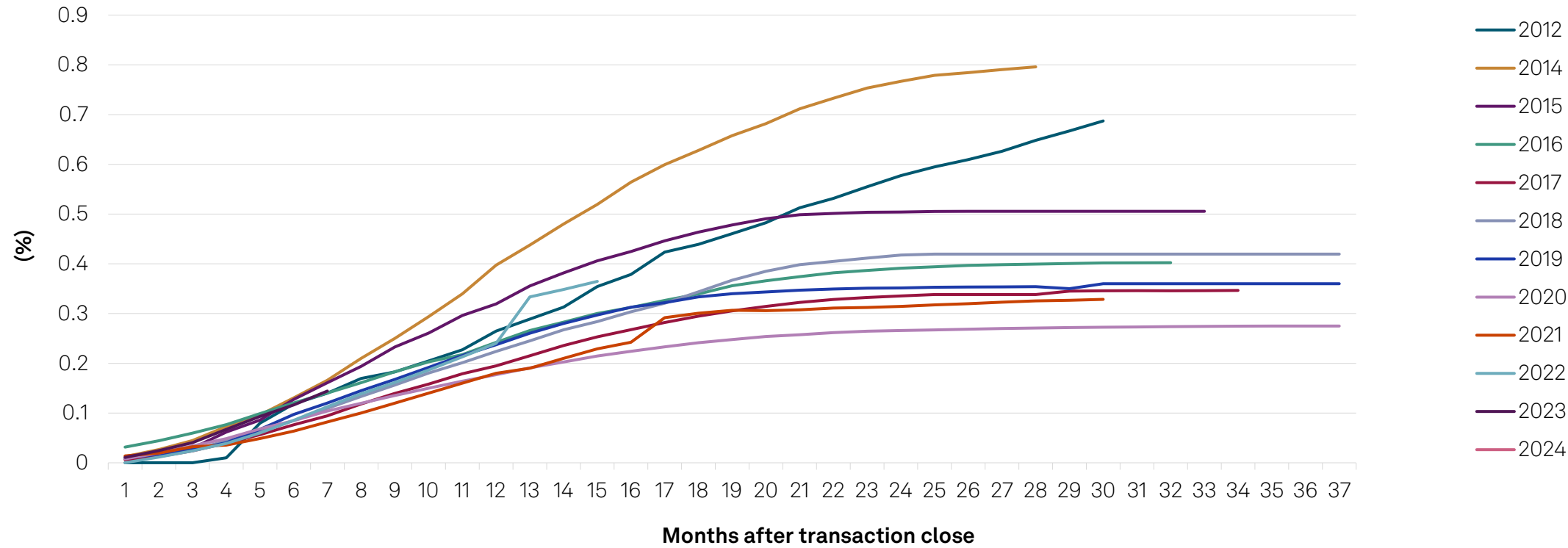


Data as of June 30, 2024. The delinquency rates of the first three months after transaction close are excluded. W.A.--Weighted average. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

- Arrears remained elevated in 1H2024.
 - W.A. 31-60 days delinquency rate ticked up to 0.19% in June from 0.17% in March, higher than the 0.12%-0.14% seen in 2H2023.
 - W.A. 61-90 days delinquency rate inched up to 0.12% in June from 0.11% in March, higher than 0.07%-0.09% observed in 2H2023.
- We believe deteriorated asset performance can be partly attributed to weak macroeconomic conditions.
- Transactions' performance also varied, reflecting originators' underwriting and loan characteristics.
- We expect arrears to remain elevated in 2H2024, considering current economic conditions.

Auto Loan ABS Performance

Cumulative default rates stayed below 0.5% for 2016 and later vintages



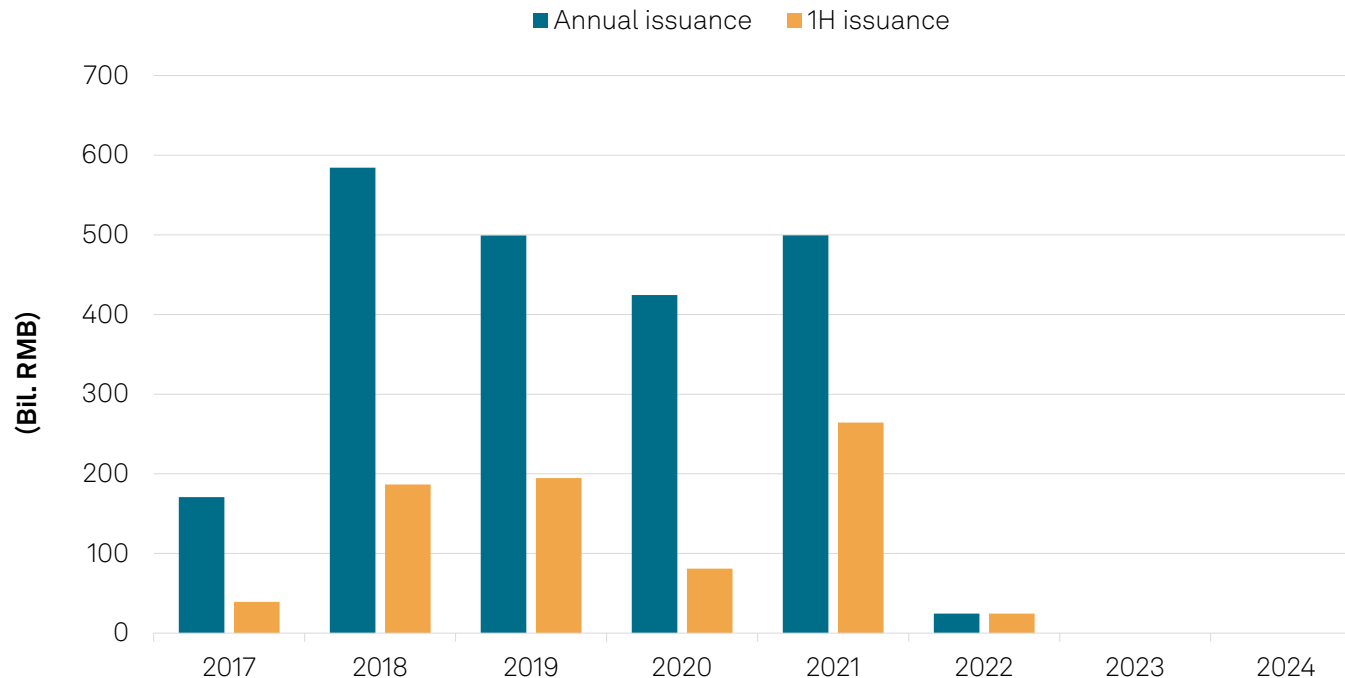
Data as of June 30, 2024. Transactions closed in the past two months or so are not included. The definition of default may vary from deal to deal. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

RMBS



RMBS Issuance

Issuance remains stalled; prospects depend on sector fundamentals

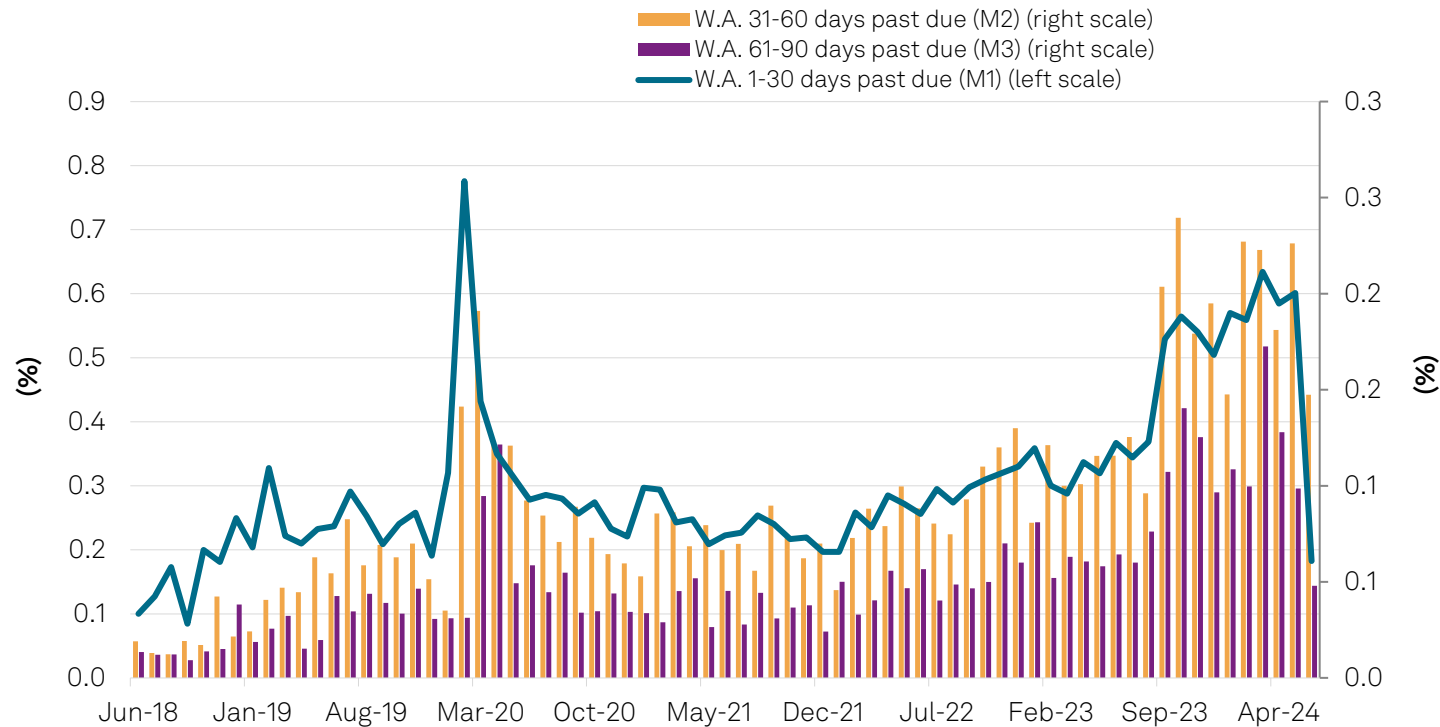


Data includes RMBS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- RMBS issuance has remained muted since February 2022 amid a persistent property market downturn and sluggish mortgage originations in China.
- We do not expect RMBS issuance to resume until the second half of 2025 at the earliest, based upon sector fundamentals (see "China Structured Finance Midyear Outlook 2024: New Issuance Will Likely Fall For Another Year," published July 8, 2024).
- While sales last year sharply declined in the primary housing market, they rose about 17% for secondary housing, by our estimates (see "China Property Watch: Searching For A Bottom," published May 7, 2024).

RMBS Performance

Delinquency ratios for the rated portfolio fell as transactions pay down

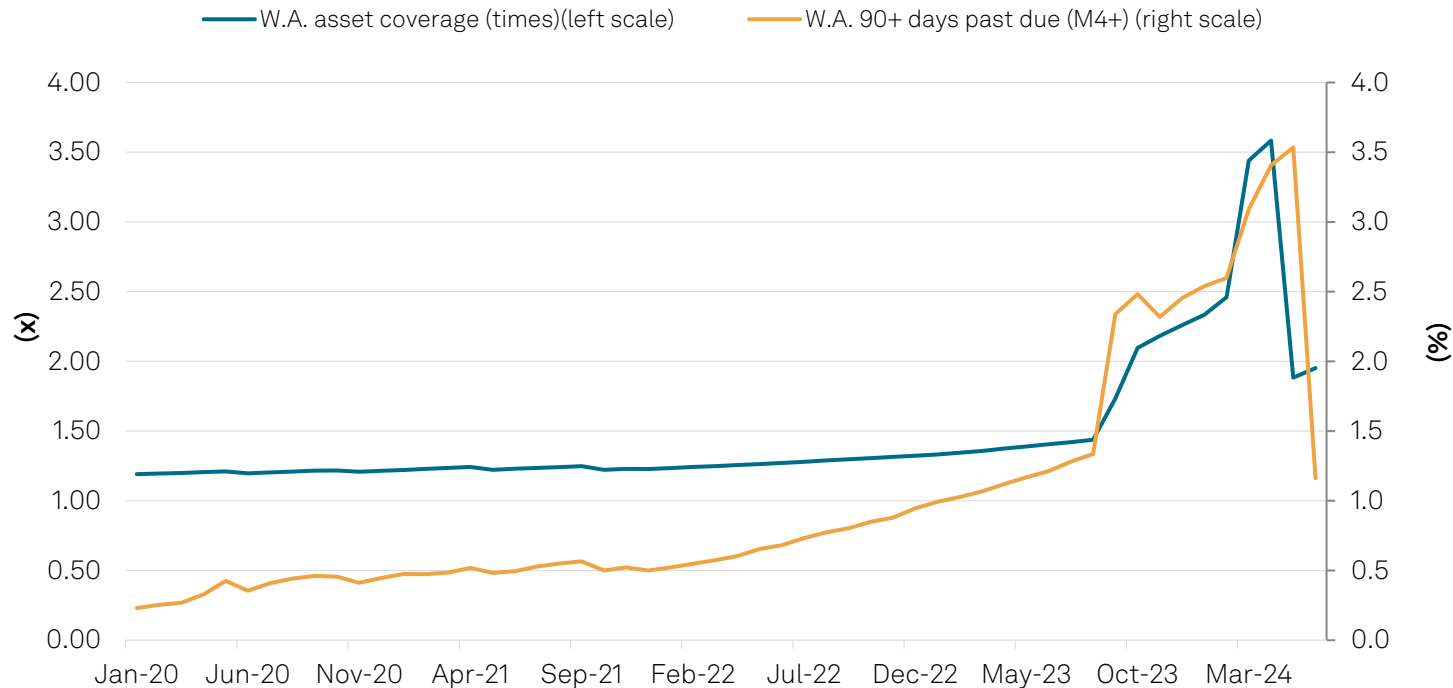


Data as of June 30, 2024. Transactions closed in the past 2 months or so are not included. W.A.--Weighted average. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

- For RMBS transactions that we rate, delinquency ratios plunged in the second quarter of 2024:
 - The 61-90 days arrears ratio dropped to 0.05% in June from 0.17% in March 2024.
 - The 90-plus days arrears ratio slipped to 1.16% in June from 3.09% in March 2024.
- The delinquency drop is mainly because five transactions with higher delinquency rates have been paid down in the past quarter.
- We expect our ratings on Chinese RMBS to remain stable for 'AAA' rated tranches during 2024.

RMBS Performance

Asset coverage and severe delinquency ratio for the RMBS we rate

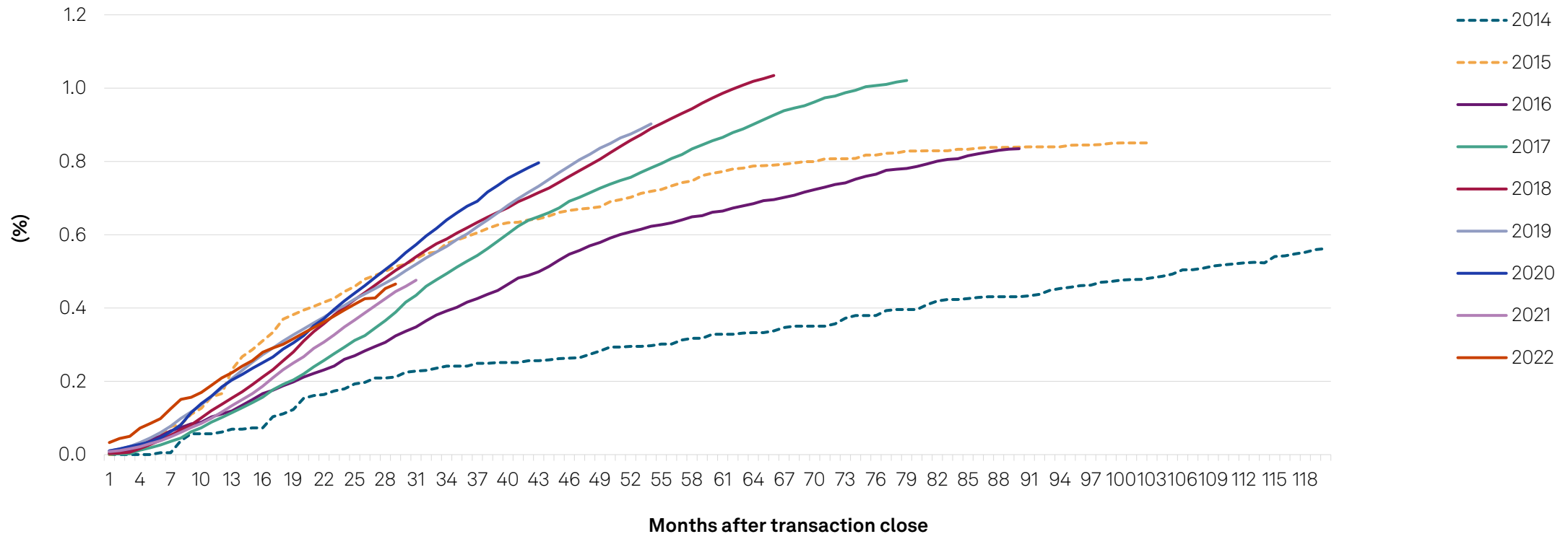


Data as of June 30, 2024. The asset coverage ratio is calculated by subtracting more than 90 days past due assets from the current outstanding asset pool balance and dividing the difference by the current outstanding balance of rated notes. W.A.--Weighted average. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

- We have adopted an asset coverage ratio to monitor our rated RMBS to better gauge and track the change in credit enhancement in percentage terms as transactions amortize. The ratio measures the number of times current collateral (excluding assets in severe delinquency) could cover the outstanding balance of rated notes.
- The ratio fell in the second quarter because several rated transactions were paid down, and the rated portfolio's asset size shrank.
- Nonetheless, the asset coverage ratio is still at 1.95x as of June 2024. This indicates that there is still an abundant buildup in credit enhancement, and therefore the transactions have cushion to withstand potential deterioration in the underlying pools.

RMBS Performance

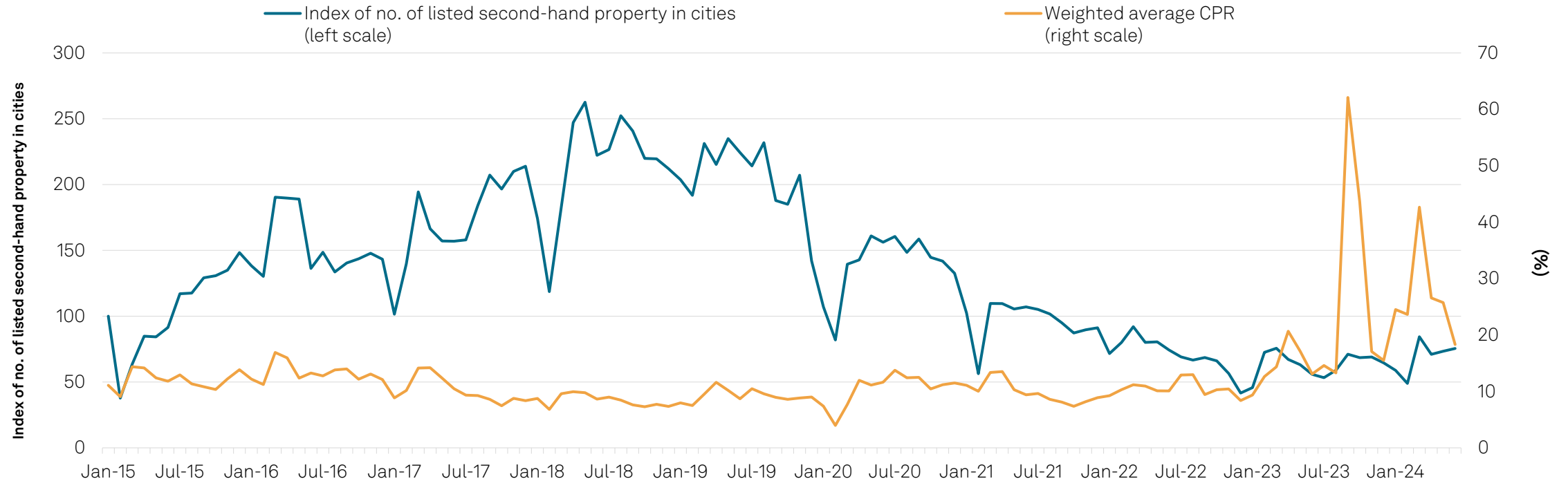
Cumulative default rates of annual vintages



Data as of June 30, 2024. The definition of default may vary from deal to deal. Number of transactions in 2014, 2015, and 2022 vintages were less than 10 transactions. Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

RMBS Performance

Weighted-average CPR and listed second-hand property index dropped



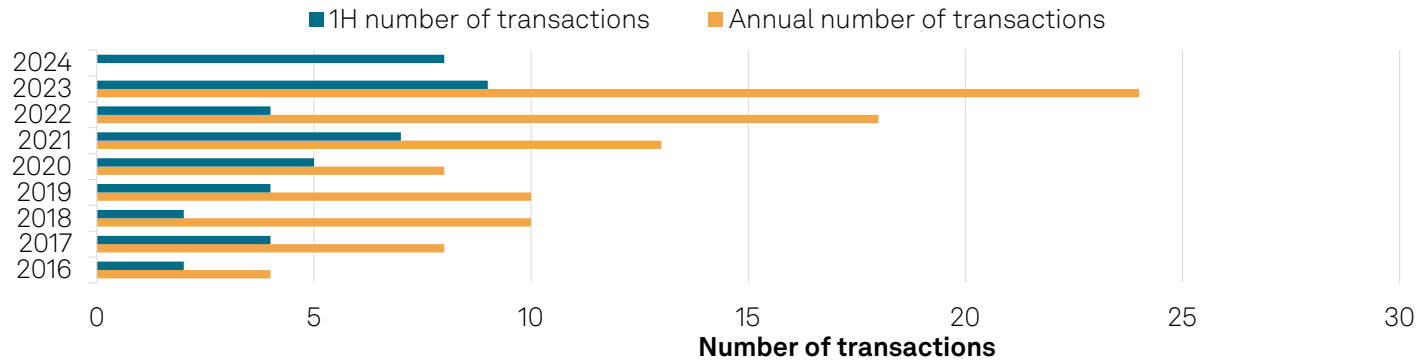
CPR--Constant prepayment rate. The first month CPR after transaction closing is excluded. Sources: WIND; Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

Consumer Loan ABS

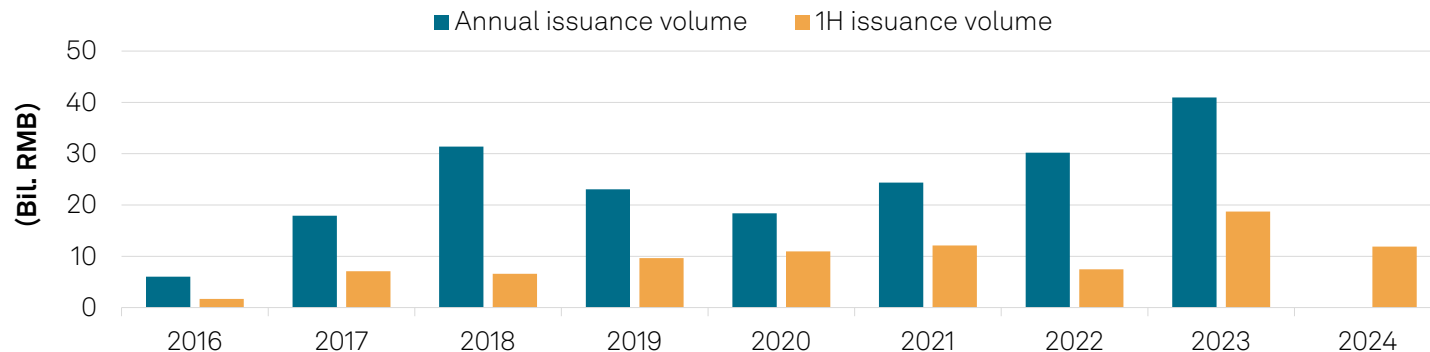


Consumer Loan ABS Issuance

Stable issuance in terms of transaction numbers in 1H 2024 vs. 1H 2023



Issuance volume in 2024 1H dropped YoY due to larger deal size last year

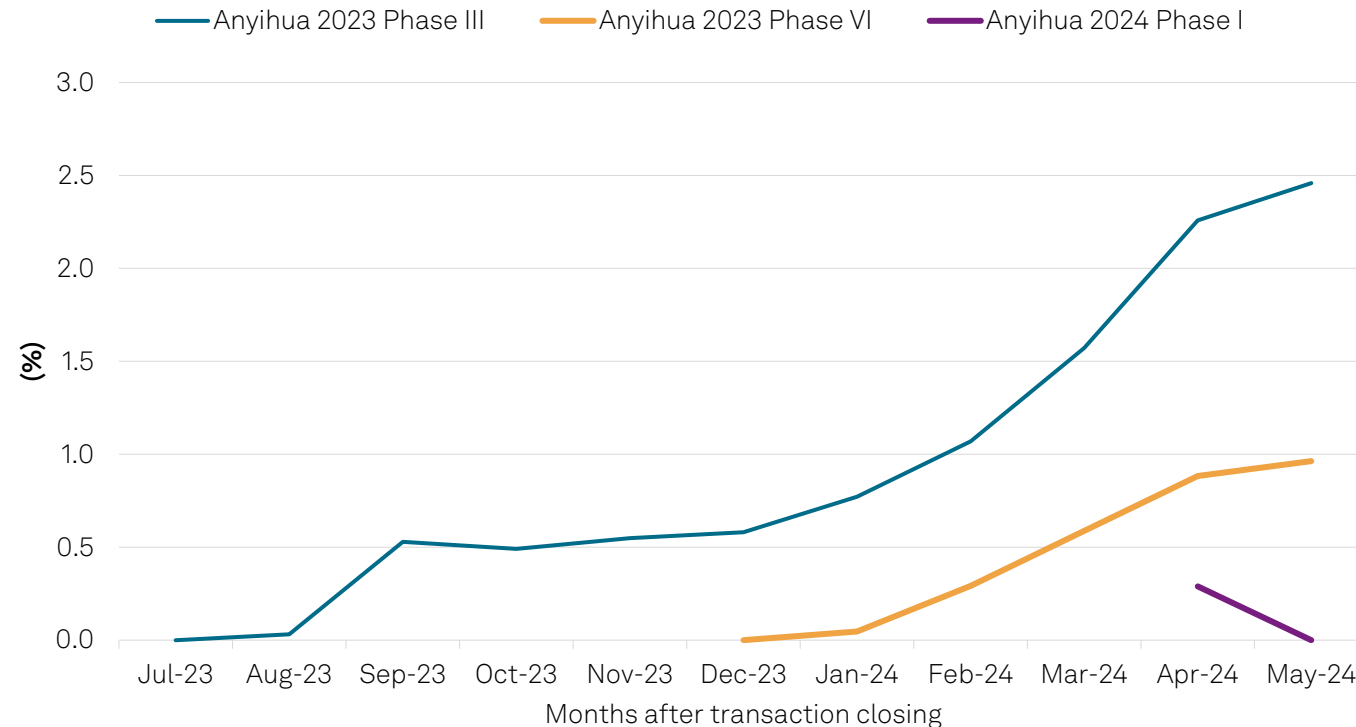


Data includes ABS issued under the CAS scheme managed by the NFRA and the PBOC. Source: WIND; compiled by S&P Global Ratings.

- Consumer loan ABS saw eight issues, with aggregate volume of RMB11.9 billion in the first half of 2024, down from nine issues with RMB18.7 billion in the same period of 2023. Two deals of RMB5 billion each issued in early 2023 were larger than the typical deal size of RMB1 billion-RMB2 billion, accounting for the decline in issuance amount YoY.
- Licensed CFCs have been active in issuing financial debentures, in part due to the streamlined issuance process since November 2023. Six CFCs issued over RMB25.5 billion financial debentures in the first half of 2024.
- We believe financial debenture issuances have cannibalized ABS issuance. We expect the trend to continue as CFCs aim to lock in lower funding costs for longer-tenor issuances.

Consumer Loan ABS Performance

M3 ratios of rated consumer loan ABS



Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

- The delinquency rates of consumer loan ABS tend to be higher and more volatile than most auto loan ABS, based on our observation of selected transactions. Such performance volatility is generally mitigated by the relatively high credit enhancement level in consumer loan ABS.
- For the Anyihua series that we rate, excess spreads can also be used to purchase new loans during the revolving period. This would create further overcollateralization and increase the credit enhancement of the rated notes.
- As of June 30, 2024, credit support provided for Anyihua 2023 Phase VI's class A1 and A2 rated notes observed herein exceeded 35%.

Related Research

- China Retail 2024 Review And 2025 Outlook: The Downside Risks To Revenue Multiply, Aug. 7, 2024
- Credit Conditions Asia-Pacific Q3 2024 A Trade Showdown Unfolds, June 25, 2024
- China Structured Finance Midyear Outlook 2024: New Issuance Will Likely Fall For Another Year, July 8, 2024
- China Securitization ABS And RMBS Tracker May 2024, June 28, 2024
- Credit FAQ: What's Behind Our First 'AAA (sf)' Rating Assigned To Chinese Exchange ABS? May 9, 2024
- China Property Watch: Searching For A Bottom, May 7, 2024
- China Auto: Margin Pressure Heightens, April 29, 2024
- A Comparative Overview Of Select China Consumer Loan ABS, Jan. 22, 2024
- How We Rate China Leasing Securitizations, Oct. 12, 2023
- What's Behind The First 'AAA (sf)' Rating Assigned To Chinese Consumer Finance ABS?, Aug. 24, 2023
- A Primer On China's Consumer Loan ABS Market, June 9, 2023
- A Primer On China's MSE Loan ABS Market, May 10, 2023
- A Primer On China's Equipment Lease ABS Market, March 2, 2023

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