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China Automotive Finance Industry Report, 2022-2030

Mar.2022

Penetration of Auto Finance in China Shows an Uptrend in Recent Years

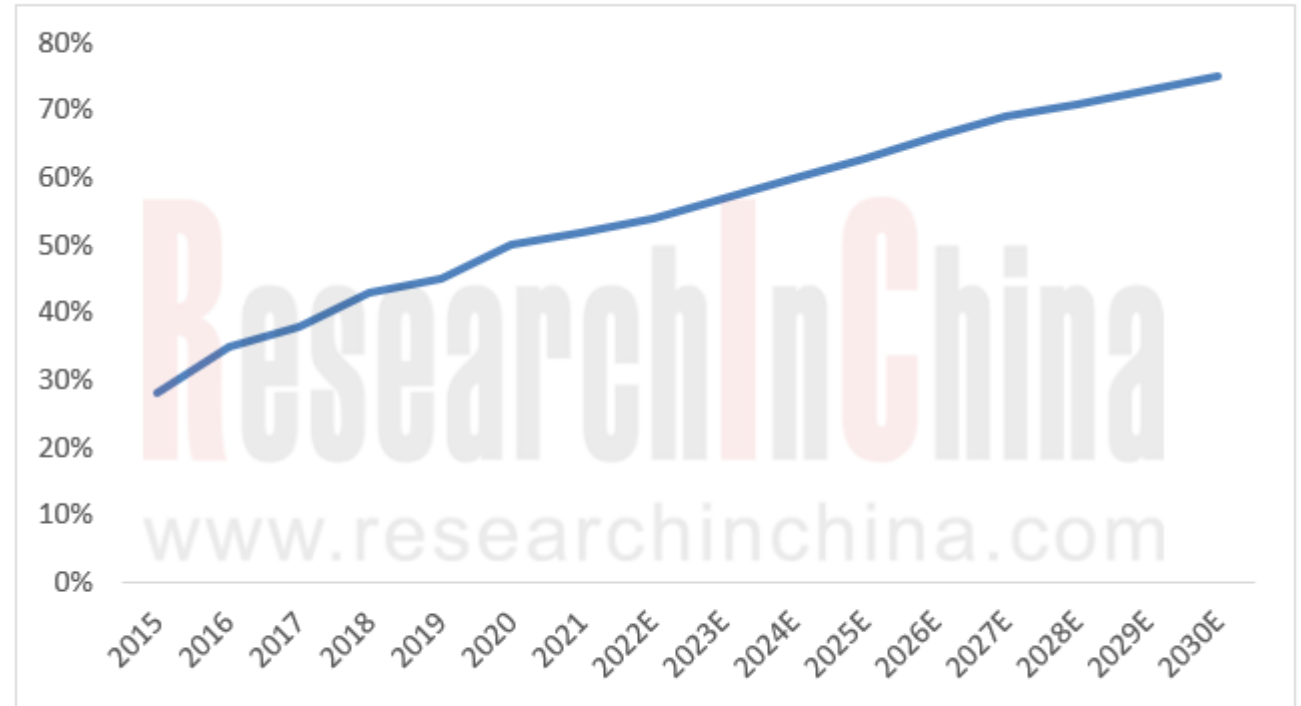
Auto finance is lucrative with the highest profit margin in the international automobile industry chain, contributing to roughly 23% of the global automobile industry profits. Yet, auto finance only has the profit margin of 13% in China. Besides a strong driver for the development of automotive market, auto finance serves as a main source of profits for large automobile groups.

In a well-established automotive market, profits come mostly from the aftermarket, but China's automobile industry still pivots on the upstream of the industrial chain as concerns profitability, will avert its focus, however, from the upstream auto production and marketing to the aftermarket where diversified services will enjoy great opportunities in future.

In 2021, China produced 26.082 million and sold 26.275 million automobiles, up 3.4% and 3.8% year-on-year respectively, ending the three-year decline since 2018.

With the changes in consumer attitudes and a multitude of the emerging consumption patterns, the penetration rate of auto finance in China shows an uptrend in recent years, hitting about 52% in 2021, still far behind that of developed countries. Amid the growing mature auto finance and the improving credit system in China, there are huge potentials in auto finance industry of China, with penetration to rise considerably.

Penetration Rate of Auto Finance in China, 2015-2030E



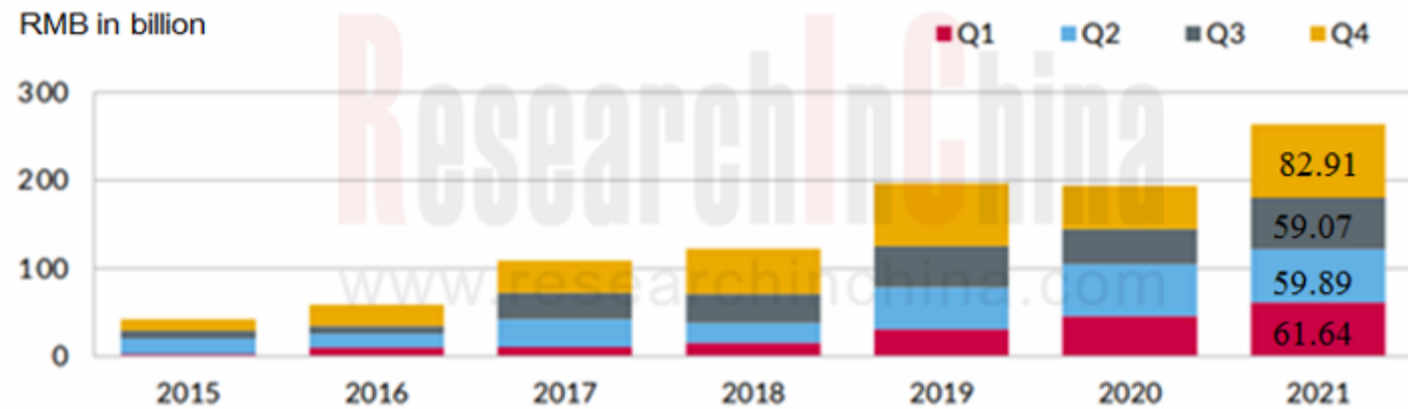
Source: Auto Finance Professional Committee of China Banking Association;
ResearchInChina

Issuance of Auto Loan ABS in 2021 and Trend in 2022

In 2021, the cumulative issuance of auto loan ABS reached RMB263.51 billion, up 35.8% over 2020.

In 2021, the cumulative issuance of auto loan ABS swelled 35.8% year on year to RMB263.51 billion, setting a new record in the interbank bond market. The issuance in the first three quarters was almost the same in scale, while it set an all-time record for a single season, namely RMB 82.9 billion, in the fourth quarter. In 2021, a total of 20 initiators participated in ABS, and they were enthusiastic enough to have more issuance, even a single initiator launched 5 ABS products. The above data shows that the auto loan ABS in the interbank bond market has fully recovered from the impact of the pandemic, and investors' acceptance of it has been further improved. In a comparatively loose financing environment, the issuance of auto loan ABS in 2022 is expected to sustain the bullish trend in 2021.

Auto Finance ABS Issuance, 2015-2021



Source: CNABS; ResearchInChina

Establishment of More and More Auto Finance Companies

Major Auto Finance Companies in China, as of 2021

No.	Companies	Founded	Registration Place
1	GMAC-SAIC Auto finance Co., Ltd.	Aug. 11, 2004	Shanghai
2	Volkswagen Finance (China) Co., Ltd.	Aug. 30, 2004	Beijing
3	Toyota Motor Finance (China) Co., Ltd.	Jan. 1, 2005	Beijing
4	Ford Auto finance (China) Ltd.	Jun. 6, 2005	Shanghai
5	Mercedes-Benz Auto Finance Ltd.	Sept. 21, 2005	Beijing
6	Dongfeng Peugeot Citroen Auto Finance Co., Ltd.	May 28, 2006	Beijing
7	Volvo Financial Services (China) Co., Ltd.	Jul. 25, 2006	Beijing
8	Dongfeng Nissan Auto Finance Co., Ltd.	Oct. 26, 2007	Shanghai
9	FCA Auto finance Co., Ltd.	Dec. 20, 2007	Shanghai
10	Chery HuiYin Motor Finance Service Co., Ltd.	Apr. 13, 2009	Anhui
11	GAC-SOFINCO Automobile Finance Co., Ltd.	May 25, 2010	Guangdong
12	BMW Auto finance (China) Co., Ltd.	Sept. 30, 2010	Beijing
13	Sany Auto Finance Co., Ltd.	Oct. 26, 2010	Hunan
14	FAW Auto Finance Co., Ltd.	Jan. 6, 2012	Jilin
15	Beijing Hyundai Auto Finance Co., Ltd.	Jun. 26, 2012	Beijing
16	Chongqing Auto Finance Co., Ltd.	Aug. 13, 2012	Chongqing
17	Fortune Auto Finance Co., Ltd.	Jan. 25, 2013	Anhui
18	Tianjin Great Wall Binyin Auto Finance Co. Ltd.	May 30, 2014	Tianjin
19	BYD Auto Finance Co., Ltd.	Feb. 6, 2015	Xi'an
20	Hawtai Motor Finance Co., Ltd.	Feb. 13, 2015	Tianjin
21	Shanghai Dongzheng Auto finance Co., Ltd.	Mar. 11, 2015	Shanghai
22	Brilliance-BEA Auto Finance Co., Ltd.	Apr. 7, 2015	Shanghai
23	Genius Auto Finance Co., Ltd.	Aug. 12, 2015	Shanghai
24	Shandong HOWO Auto Finance Co., Ltd.	Sept. 18, 2015	Shandong
25	Yulon Motor Finance (China) Co., Ltd.	Feb. 19, 2016	Hangzhou

Source: ResearchInChina

Till the end of 2021, 25 auto finance companies had been approved for establishment.

Auto finance companies have a late start in the auto finance market. In October 2003 and November 2003, the China Banking Regulatory Commission successively promulgated Administrative Measures for Auto Finance Companies and Detailed Rules for the Implementation of Administrative Measures for Auto Finance Companies, officially opening up domestic auto consumer credit and related businesses, allowing qualified Chinese and foreign institutions to establish auto finance companies in China.

As of end-2021, a total of 25 auto finance companies had been approved for establishment. Backed by automakers, auto finance companies are advantageous in the auto industry chain and developing apace in recent years with rich channel resources. Based on public data, the total assets of auto finance companies nationwide are on a rapid rise over the recent years, with an average growth rate of 19.05% between 2016 and 2020, and registering RMB977.48 billion at the end of 2020.

Closer Cooperation between Auto Finance Companies, OEMs and Dealers

The COVID-19 hit hard credit standing of the automotive sector, but the situation improved apparently in 2021.

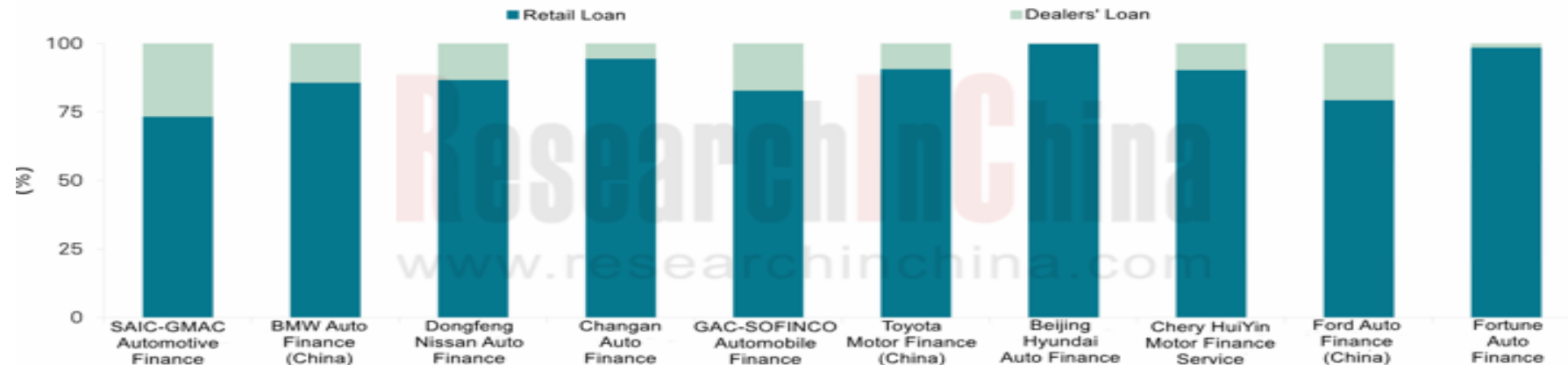
Auto sales was seriously devastated at the outbreak of COVID-19 in the first quarter of 2020, and has rebounded steadily since then with China's strong control on the pandemic.

As for retailing, auto finance companies actively cooperate with OEMs to carry out promotions, and drive auto sales by enriching loan products, digitizing procedures, lowering loan thresholds, and easing the burden to car buyers. On the supply chain side, auto finance companies offer stable financial support to dealers; especially during the COVID-19 in 2020, they eased the burden on dealers by intentionally extending the repayment term and slashing loan interests and fees in response to the shortage of funds for some dealers. This move stabilizes the marketing system of OEMs. As of the end of 2020, the retail loan balance of auto finance companies in China had been RMB782.016 billion, up 8.71% year on year; the inventory wholesale loan balance had edged down 3.15% year-on-year to RMB104.652 billion.

Auto finance companies have been operating steadily on the whole, and showed professional risk control capabilities and robust business competences amid the pandemic. The regulatory indicators of auto finance companies still perform well. By the end of 2020, the auto finance industry's average liquidity ratio had reached 214.09%, much higher than the average level of the banking industry; the auto finance industry's capital adequacy ratio had jumped 0.79 points year on year to 21.40%; its average non-performing loan ratio had been 0.49%, and it had decreased after a surge in February and March due to the pandemic, and at the end of 2020 back to the level at the end of the previous year, and even with a slight decrease of 0.01 point.

Compared with banks and other non-bank financial institutions with more diversified operations, auto finance companies focus on auto finance with better transparency. An auto finance company's loan portfolio typically consists of two parts: retail business (loans for car buyers) and wholesale business (loans to car dealers). Also, auto finance companies can develop car rental services, which usually feature higher flexibility in product design. In practice, rental services are more concentrated in the financial leasing companies established by automakers.

Loan Structure of Major Auto Finance Companies, as of End-2020



Source: ResearchInChina

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Beijing Headquarters

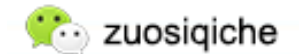
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