

China Commercial Seeks Acquisitions to Bond Sales in Loans Push

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By Bloomberg News

Oct. 9 (Bloomberg) -- China Commercial Credit Inc., the nation's first U.S.-listed micro credit firm, plans to boost its lending capacity by almost 10-fold in three years through acquisitions and more capital raising.

The lender aims to have 5 billion yuan (\$817 million) of loans, up from about 550 million yuan as of June 30, mainly by buying rivals across China, Chief Executive Officer Qin Huichun said in a phone interview today, without specifying targets. The company is considering sales of asset-backed securities domestically and bonds abroad to raise capital, Qin said.

Micro financing has flourished in China since its inception in 2005 as the nation's 42 million smaller businesses missed out on a 4 1/2 year credit binge that mostly benefited government-backed enterprises and projects. Less than 10 percent of small private enterprises have access to bank loans, according to Citic Securities Co. estimates, despite accounting for 60 percent of economic output and 80 percent of jobs.

"Although banks have increased their lending to small firms in the last few years, the amount is insignificant and the impact is quite limited," Qin said. "Microlenders like us will become the key force to fill the void and there'll be huge potential in serving these borrowers."

Less than a third of the \$7 trillion in outstanding corporate loans made in China were to smaller companies, according to data from the central bank, forcing them to resort to more expensive alternate sources of financing such as underground lenders and trusts.

Outstanding Credit

China had 7,086 micro credit firms specialized in offering loans to farmers and small businesses at the end of June, more than triple the number from three years ago, People's Bank of China figures show. Their outstanding credit surged over 560 percent during the same period to 704.3 billion yuan as of June 30, according to the data.

Shares of China Commercial Credit have rallied 44 percent since its August debut on the Nasdaq Stock Market to close at \$9.37 on Oct. 8. Based in Wujiang city in the eastern province of Jiangsu, the five-year-old company raised \$8.9 million from its initial public offering and is now valued at \$97 million.

China Commercial Credit provides lending and loan guarantees to more than 360 small-and-medium enterprises as well as farmers in Jiangsu, which has 529 microlenders, more than any other province in the country, according to the central bank.

Benchmark Rate

Unlike banks, micro credit firms are not allowed to take deposits and can only offer loans with shareholders' capital and bank borrowings. About a quarter of China Commercial Credit's funds available for lending came from bank borrowing, according to Qin, 49.

The former PBOC official said China Commercial Credit paid about 20 percent above the benchmark rate, currently set at 6 percent for one-year loans, to borrow from commercial banks. Meanwhile, the firm charged an average 15 percent annual rate on loans to small businesses and farmers.

China Commercial Credit had net income of \$8.3 million in 2012, little changed from a year earlier, according to data compiled by Bloomberg.

Qin expects credit quality of micro lending to worsen in the remainder of the year as small borrowers struggle to repay debts amid an economic slowdown. China will probably record growth of 7.6 percent this year, the weakest pace since 1999, according to a Bloomberg economist survey.

The Yangtze River Delta, including Jiangsu and Zhejiang provinces where small businesses are concentrated, has seen the biggest increase in soured loans among publicly-traded mainland banks in the first half, according to their earnings reports.

Sour Loans

Nonperforming loans at Chinese banks grew for a seventh straight quarter in the three months ended June 30 to 539.5 billion yuan, extending the longest streak in at least nine years, according to China Banking Regulatory Commission data. Still, that accounted for less than 1 percent of the nation's outstanding loans, the data showed.

Policy makers have encouraged more financial support for small businesses. The banking regulator ordered banks last month to increase loans to small firms at a faster rate than other industries and raise their credit tolerance toward those companies.

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