

Huitong 2019-1 Auto Loan-Backed Securities

Ratings

Class	Amount (CNY 10,000)	Percent as of Total (%)	Rating
Senior A1	125,000.00	31.25	AAA _{sf}
Senior A2	205,000.00	51.25	AAA _{sf}
Senior B	33,000.00	8.25	AAA _{sf}
Subordinated	37,000.00	9.25	NR
Total	400,000.00	100.00	—

Note: 1. NR means not rated; the same below.

2. The sum of the percentages may not add up to 100% due to rounding.

Transaction Overview

Cut-off date: 00:00 on March 1, 2019
 Legal maturity date: December 28, 2026
 Type of the transaction: Static cash flow ABS
 Type of the vehicle: Special-purpose trust
 Underlying assets: CNY 4,000,000,000.00 worth of auto loans issued by GAC-SOFINCO Automobile Finance Co., Ltd. and associated security interests
 Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms, reserve account, excess spread
 Trustor /Originator: GAC-SOFINCO Automobile Finance Co., Ltd.
 Trustee/Issuer: Guangdong Finance Trust Co., Ltd.
 Loan service provider: GAC-SOFINCO Automobile Finance Co., Ltd.
 Fund custodian: Guangzhou Branch of Industrial and Commercial Bank of China Limited
 Lead underwriter/book runner: CITIC Securities Co., Ltd.
 Joint lead underwriters: Bank of China Limited, HSBC Bank (China) Company Limited

Rating Assigned Date:

June 3, 2019

Analysts

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Rationale

China Lianhe Credit Rating Co., Ltd. (“Lianhe Ratings”) has conducted a comprehensive credit analysis on the transaction including its underlying assets, transaction structure, legal elements, and related institutions. In addition, it has also performed cash flow analysis and stress tests on the underlying assets.

The underlying assets in the transaction are auto loans originated by GAC-SOFINCO Automobile Finance Co., Ltd. (“GAC-SOFINCO”), the trustor, and associated security interests. Assets in the pool have the advantages of general auto financial assets such as being highly diversified (a total of 70,916 loans), reasonable down payment ratios (a weighted average ratio of 44.50%) and installed payments. More importantly, GAC-SOFINCO boasts extensive experience in managing auto loans, with a low expected cumulative default rate¹ of 1.79% and a loan recovery rate of 30.99%, taking into account of accounts receivable aging, meaning the overall quality of the underlying assets is good. On such a basis, the senior/subordinated structure with a trigger mechanism will provides sufficient credit support for the senior securities. Lianhe Ratings has also taken into account the credit support of the interest during the period from the benchmark date and the establishment date to the senior securities while performing quantitative estimates (the interest of about CNY 60 million provides credit support of nearly 1.54% to the senior securities).

It should be specially noted that although senior A and senior B asset-backed securities have the same rating, quantitative estimates show that senior A securities can withstand significantly higher risks than senior B securities (with bigger

¹ Expected cumulative default rate with account receivable aging taken into account = cumulative amount of defaulted loans within the remaining period/outstanding balance of principal with normal account receivable aging status. Historical data show that the aging of the underlying assets will affect the cumulative default rate of loans within the remaining period,

Lianhe Ratings finds. Considering the weighted average account receivable aging of assets in the pool, when performing quantitative estimates, Lianhe Ratings first calculates the expected cumulative default rate of loans by aging category and then derives the weighted average benchmark rate based on the distribution of account receivable aging of assets in the pool.

protection in stress tests).

Taking all of the above into consideration, Lianhe Ratings assigns AAA_{sf} to the senior A securities (including the senior A1 and A2 securities, the same below) under Huitong 2019-1 Auto Loan-Backed Securities and AAA_{sf} to the senior B securities.

Strengths

1. **The underlying assets in the transaction are of good quality.** The underlying assets in the transaction include 70,916 auto loans issued by GAC-SOFINCO. The borrowers are from 31 provinces, autonomous regions and municipalities across China. The single largest loan accounts for 0.009% of the asset pool, and the weighted average down payment ratio is 44.50%. More importantly, loans originated by GAC-SOFINCO have excellent credit performance, with a low expected cumulative default rate of 1.79% and a loan recovery rate of 30.99%, estimates based on historical default data show, meaning the quality of the underlying assets is overall good.
2. **The senior/subordinated structure provides enough credit support for the senior securities.** The senior securities receive 9.25% credit support from the subordinated securities.

Concerns and Risk Mitigation

1. There are many factors affecting default and recovery of a loan. The statistical methods and related data used in quantitative analysis may lead to modeling risks.
Risk mitigation: By raising the default rate, lowering the recovery rate and reducing spread support, Lianhe Ratings has repeatedly tested the senior securities'

tolerance of defaults, with an aim to minimize the modeling risks.

2. Once the trust becomes effective, the trustor's transfer of the auto loans will have legal effect between the trustor and the trustee, and the right of vehicle pledge associated with the auto loans will be simultaneously transferred to the trustee. However, the mortgage guarantee held by the trustee may not be effective against bona fide third parties before the mortgage guarantee transfer is registered under the name of the trustee.
Risk mitigation: This transaction has set up a redemption clause for non-conforming assets. In the event that the mortgage held by the trustee is not effective against bona fide third parties, the trustor will redeem the corresponding asset as agreed. Lianhe Ratings will closely monitor the diligence of the trustor and the trustee and their ability to perform the contracts.
3. Given a weak global economic recovery and complex externalities, China's economy faces a continued downward pressure. Macroeconomic systematic risks may affect the overall credit performance of the asset pool.
Risk mitigation: Lianhe Ratings has already taken into account factors as a consequence of macroeconomic systemic risks such as rising default rate and falling recovery rate of the underlying assets when adjusting the parameters of the default models. The above risks are reflected in the ratings assigned.