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Credit Guarantee Corporation of Cambodia (CGCC)

Initial Coverage

ANALYSTS

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COMPANY INFORMATION

Name	Credit Guarantee Corporation of Cambodia
Abbreviation	CGCC
Founded in	2020
Sector	Finance, Credit Guarantee Scheme
Status	Not Publicly Listed

FINANCIAL SUMMARY

USD	2021	2022	2023
Assets	207,132,706	217,483,594	232,942,335
Liabilities	402,914	1,612,254	4,640,210
Equity	206,729,792	215,871,340	228,302,125
Revenue	9,194,026	13,751,912	16,272,657
Net Profit	7,661,172	9,141,548	12,430,785

FINANCIAL RATIOS

Y/E Dec	2021	2022	2023
ROA	3.70%	4.20%	5.34%
ROE	3.71%	4.23%	5.44%
Equity to Asset	0.998	0.993	0.980
Current Ratio	513.12	152.83	51.55
Profit Margin	83.33%	66.47%	76.39%
Investment Income/Revenue	98.79%	96.16%	92.95%
GI/Revenue*	0.67%	3.66%	6.86%
TD/Asset**	93.62%	92.24%	92.53%

*GI = Guarantee Income

** TD = Term Deposits

GUARANTEE PERFORMANCE

Y/E Dec	2021	2022	2023
GA	194	791	943
GL (in USDm)	21.30	71.38	71.96
MSMEs Proportion	95.00%	96.70%	87.70%
Women Proportion	22.50%	38.00%	49.31%

*Note:

GA = Guaranteed Account

GL = Total Guaranteed Loan

MSMEs Proportion: % MSMEs that are borrowers

Women Proportion: % Women that are borrowers

EXECUTIVE SUMMARY

- CGCC exists to fill a much-needed role in the Cambodian finance and capital market in bridging the gap between the lender and the borrower that has been widened due to the asymmetrical information problem. CGCC is highly committed to helping Cambodian micro-, small-, and medium-enterprises (MSMEs) access capital under its goal of improving the financial inclusion and development of Cambodian MSMEs.
- The firm has shown increasing revenue over the last three years since its incorporation. Its main revenue stream is from investment income, and almost all of its investment is from term deposits. It has diversified its investment by investing in bonds from Cambodia Airport Investment Co. Ltd. (CAIC) for the development of the new airport. The investment came nearly two years ago in 2022, and has been rolled over upon the bond maturity. This investment in bonds represented a small fraction of CGCC's other revenue streams, even falling behind their operational income.
- Although even just through term deposits alone, CGCC's interest revenue is growing very fast and has almost doubled between 2021 and 2023. The firm is doing well in capitalizing on the high interest rate and low tax rate on interest income from deposits in Cambodia.
- The firm has enjoyed a strong financial performance with the growth of its operational and investment income exceeding the growth of its operating expenses. This positions CGCC well for expansion, including increasing loan and bond guarantee activities.
- CGCC is currently operating debt-free as it has taken on no debt. This means that it has very few liabilities.
- CGCC is also crucial in the development of women-owned businesses, especially through its Women Entrepreneurs Guarantee Scheme (WEGS) by providing a high guarantee coverage of 80% of principal amount across all sectors as opposed to 70% for service and non-priority sectors and 80% for only industry and agricultural sectors offered by the Business Recovery Guarantee Scheme (BRGS) scheme.
- Recent NBC regulation recognizes a portion of the loans guaranteed by CGCC as zero risk weight.
- The CGCC Guarantee Management System (GMS) is vital to ensure robust growth of Guarantee Application submission and satisfy the Participating Financial Institutions (PFIs) experience.
- CGCC also has a quick loan turnaround time for both its Individual Guarantee Scheme (IGS) and Portfolio Guarantee Scheme (PGS) averaging around 1.5 days and 0.5 days respectively. This means that loan applications submitted to the CGCC will receive approval in less than 2 days for IGS and in less than a day for PGS.
- CGCC has recently obtained accreditation from the Securities and Exchange Regulators of Cambodia (SERC) under the direction of the Ministry of Economy and Finance to become the country's first local guarantor on bond issuance. It has also received a rating of khAAA, the highest possible rating from the Rating Agency of Cambodia (RAC).
- By retaining all of its earnings CGCC is able to increase its equity and ultimately increase its capacity to take on and guarantee even more loans and, as of recently, bonds.
- CGCC has an increasing ROA ratio going from 3.7% to 5.3% while also increasing both its profit and total assets. This shows an increase in the efficiency of the management in generating profit from its assets. However, the majority of its assets (over 90%) are made up of its term deposits in other financial institutions. Looking at the ratio between its investment income and term deposits, the return in 2023 is 7.38%, an increase of about 0.42% from 2022. The interest rates that CGCC earns for its term deposits in 2023 sit between 6.5% and 8.25%.



FIRM INFORMATION

Company Description

Credit Guarantee Corporation of Cambodia is currently Cambodia's only local loan and, as of recently, bond guarantor. CGCC and credit guarantors in general act as an important intermediary between the lender and borrower and aim to mitigate the economic issue of asymmetrical information in securing capital for businesses. CGCC provides guarantees to MSMEs that do not have access to credit due to certain reasons and guarantees to cover a share of the default risk on the loan. CGCC aims to improve financial inclusion for MSMEs since they make up over 50% of Cambodia's GDP and roughly 70% of total employment. MSMEs also account for over 99% of the country's business entities.

CGCC offers two different ways to approve its guarantee schemes, Individual Guarantee Schemes (IGS) and Portfolio Guarantee Schemes (PGS). Under IGS, any loans must obtain approvals from any of CGCC's partnered financial institutions (PFIs) before submitting for guarantee approval by CGCC and disbursing the guaranteed loan. Under PGS, guaranteed loan criteria have been pre-established by CGCC and PFIs, allowing the PFIs to include multiple loans in PGS without needing individual guarantee approval from CGCC before disbursing each loan. While CGCC markets itself toward MSMEs since they are its target group, it also extends its services to large firms looking to borrow or issue bonds as well. CGCC, at the time of writing, offers six different guarantee schemes:

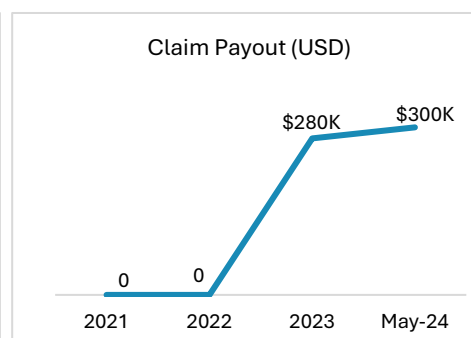
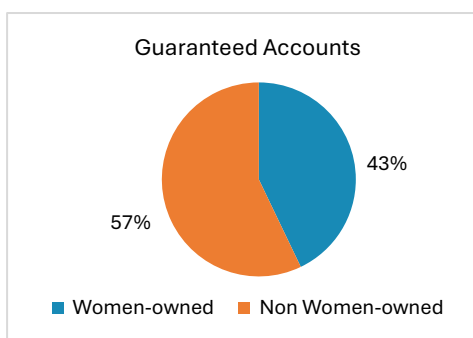
- **Business Recovery Guarantee Scheme (BRGS):** CGCC's first-ever scheme with an extended scheme size of up to \$200m and guarantees from 70% - 80% of the principal loan amount. BRGS services agriculture, industry, service, and non-priority sectors.
- **Co-Financing Guarantee Scheme (CFGS):** CGCC's second scheme launched with SME Bank of Cambodia under their Co-Financing Scheme.
- **Co-Financing Guarantee Scheme for Tourism (CFGS-TR):** A sub-scheme to their second scheme of Co-Financing Guarantee Scheme with a scheme size of \$50m and covers 80% of the total amount. As the name suggests CFGS-TR covers the tourism sector.
- **Women Entrepreneurs Guarantee Scheme (WEGS):** Launched in April 2022, WEGS aims at helping women and women-owned businesses with a scheme size of \$30m and covers 80% of the total loan size across all sectors.
- **Post-Harvest Fisheries Guarantee Scheme (PFGS):** PFGS is part of the Value Change Investment Support Facility project under the United Nations Industrial Development Organization (UNIDO) and funded by the European Union. The credit guarantee scheme aims to provide access to funds for post-harvest fisheries business in Cambodia with a scheme size of \$625k with an 80% guarantee coverage and subsidized guarantee fee for the entire project.
- **Portfolio Guarantee Scheme (PGS):** Unlike the above schemes which are regarded as individual Guarantee Scheme (IGS), PGS is a credit guarantee scheme under which guaranteed loan criteria are pre-agreed by CGCC and PFIs to enable the PFIs to enroll multiple loans in PGS without having to get guarantee approval on each loan from CGCC prior to loan disbursement. As of June 2024, CGCC has implemented 15 PGS, including Rice Export Guarantee Schemes (REGS), with a total PGS size of \$54 million.

Funding and Revenue

Being a state-owned entity, CGCC receives its source of funding directly from the Royal Government of Cambodia. CGCC received its first capital in February 2021 from the government amounting to \$200 m. Ever since then, CGCC has been growing its equity mainly through its revenue stream. As mentioned later in the report, CGCC has two sources of revenue, guarantee fees and investment revenue. Each of the guarantee schemes apart from the PFGS has a guarantee fee that is charged from the PFIs. This guarantee fee is understood to be a percentage of the outstanding guaranteed amount. The highest percentage is in the BRGS at 1.5% of the outstanding guaranteed amount for non-priority sectors. With mandate of being non-profit motivated, CGCC's certain schemes such as the PFGS and WEGS have their guarantee fee subsidized at full and 50% for both schemes respectively.

Operational Highlights

As of end of May 2024, CGCC reports a total guaranteed loan amount of \$191m with a total of 2,241 guaranteed accounts. Out of that guaranteed loan, \$124.98m is still outstanding with \$90.43m of the outstanding amount under CGCC's guarantee or 72.35%. CGCC currently has 26 PFIs with which the guaranteed loans are disbursed. While CGCC's functional currency is USD, it does guarantee loans denominated in both KHR and USD. In 2023, around \$20m or 12% of its total guaranteed loan amount is denominated in KHR. CGCC has also been doing well in terms of supporting women and women-owned businesses through its WEGS. Currently, 961, or 43% of the 2,241 guaranteed accounts disbursed are for women-owned businesses. CGCC has only started to make claim payouts recently in 2023.



FINANCIAL ANALYSIS

Balance Sheet Analysis

The Balance sheet analysis takes into account the relation between the business of the firm, in our case, loan and soon bond guarantee, and the firm's sources and use of funds. Guarantee intermediaries generally use two sources of financing: shareholders' contributions and contributions from public entities and sometimes, other sources of income. Since CGCC is a state-owned entity, it has to rely on contributions from public entities, namely the Ministry of Economy and Finance which provided the corporation with \$200m in capital at its inception. CGCC also relies on another source of income, term deposits in other financial institutions. According to its audited financial statements, CGCC's term deposits are placed in various financial institutions earning a high interest rate ranging from 6.5% to 8.25% per annum.

Turning to CGCC's liabilities section, its guarantee-specific liabilities, unearned guarantee fees, and expected credit loss for guarantee scheme, make up most of its total liabilities and, combined, they jumped from 37% of total liabilities in 2021 to 75% in 2023. This huge leap in just three years is mainly driven by the increase in the expected loss for credit guarantee schemes that rose from a mere \$37k to nearly \$3m in this period. This shows that CGCC has been taking on more loans as evident by the almost doubled total guaranteed loan size from \$92.7m to \$164.72m in just the past year alone. For CGCC's equity side, it is entirely composed of the initial investment of \$200m by the Ministry of Economy and Finance for its share capital and plus any of its retained earnings. In terms of its retained earnings, CGCC has retained 100% of its earnings since its first dollar and is the only driver of its equity growth.

The asset side of the balance sheet is mainly composed of the aforementioned term deposits that are placed in various financial institutions across the country and make up between 92% to 94% of CGCC's total assets. There was a small attempt to branch into a different form of investment as CGCC invested about \$2m into Cambodia Airport Investment Co. Ltd. (CAIC) bonds in 2022 for the development of the new airport which has been rolled over at maturity. This means that the invested capital is mainly in financial assets while investment in fixed assets only grows through the demand of the firm.

Income Statement Analysis

CGCC's main source of income, as discussed earlier, comes from its term deposits, which it invested most of its equity in. The income from this and a small amount from the bond investment in 2022 makes up the entirety of its investment income which, in turn, makes up over 90% of the CGCC's entire revenue across all 3 years.

There is a trend of growing operating costs with a spike in 2022 due to currency translation differences. The currency translation differences account records the amount gained or lost during the year due to currency conversions from KHR to CGCC's functional currency, USD. Personnel expense makes up the bulk of its operating costs until 2023 when the expected credit losses exceeded personnel expense in a record spike that saw the number jump 6 times that of the previous year implying that CGCC has been taking on more loans to guarantee that would innately translate to more risks relatively.

The firm's core operational income represented by the guarantee income also shows a positive growth rate. This income doubled within the financial year 2023. Since guarantee income is applied as a percentage of loans, this implies that its loans also doubled within that year. Despite the CGCC's staunch efforts to increase its core operational income in 2023, its total operating income is nowhere near adequate to cover its operational costs, meaning that the firm has recorded a loss every year in terms of its operations. In the long run, CGCC aims to increase its operational income to cover its operating expenses.

Despite having negative net operating profits, the firm does bring in a significant amount of income through its investment profit that stems from its term deposits and can easily cover its operating costs by 4 times over in 2023, a year with record expected losses for its guarantee schemes, and nearly 3 times over in the year with its record expense in 2022.

The growth of CGCC's total revenue from both operating and investment activities exceeds the growth rate of its operating expense meaning that CGCC is robustly growing both its income stream while keeping the growth of its expenses at bay. This puts CGCC in a healthy position in terms of its financial performance and provides the entity with a platform to grow and take on more loans and expand further. Its recent accreditation by the SERC to allow CGCC to expand further and even guarantee bonds only stands to affirm this.

While CGCC is increasing its total guaranteed loan size, it is also taking on more risks as a result of the increased guarantee portfolio. The growing expected credit loss shows not only an increasing number of loans that CGCC is guaranteeing but also the increased risks associated. 2023 shows an almost six times increase in its expected credit loss as a result of the increased loans. It is also important to understand that this figure is recorded as a provision. CGCC did however record claim payouts of only \$280k in 2023 and none in the prior years. The firm also reported an NPL ratio of 6.68% in 2023.

Despite this sharp increase in expected credit loss, total operating expenses for 2023 still fell. This fall is due to the increase in currency translation differences in 2022 that pushed operating expenses up within that year. In 2023, currency translation turned positive which lowered the operating expense that year despite that sharp increase in expected credit loss.

Breaking Into the Bond Market

CGCC has grown beyond its initial purpose. Its first-ever guarantee scheme, the BRGS, was launched in an effort to aid the recovery of businesses, especially SMEs during and in the post-pandemic landscape. CGCC now offers beyond just a scheme for business in recovery towards other areas through various guarantee schemes that it currently offers with more in the works. It has also moved beyond just being a guarantor for loans and set its sight on the growing debt securities market. The first bond issuance in Cambodia came in the form of a private bond at the end of 2018 issued by the local microfinance institution Hattha Kaksekar. Since then both the private and public sectors have issued even more bonds



contributing to the rise of the local bond market especially with the issuance of the first government bonds in 2022. Against this backdrop of a noticeable growing bond market, CGCC moved to obtain accreditation from the SERC to guarantee bonds and even received the highest possible local rating of “khAAA” from the RAC. This solidifies CGCC’s position within a growing market that would highly benefit from having another guarantor especially a local and government-backed guarantor. Having a bond guarantor of CGCC’s credibility would serve to attract more investors as guaranteed bonds are protected against defaults. This would create a positive feedback loop that would lead to more bond issuance into the market and, in turn, more investors flocking in.

CGCC has a budget allocation for its proposed bond guarantee of KHR 200 billion or USD 50 million. Currently, CGCC has a policy of only guaranteeing bonds denominated in KHR to align with the National Bank of Cambodia’s (NBC) current campaign to promote the local currency. CGCC also plans only to guarantee bonds issued under the approval of SERC and Cambodia Securities Exchange (CSX) and would guarantee up to 100% of the bond inclusive of the principal and coupons. Due to the nature of risks associated with each bond, the guaranteed size administered by CGCC would range from KHR 8 billion to KHR 80 billion and only up to 10 years with a commission fee ranging from 1% to 2.5% based on the credit rating of the bond.

Why CGCC?

Even though its loan size has been increasing, CGCC still has the potential and the ability to take on even more loans and this justifies its move towards the bond market. CGCC also has a lot of advantages, especially from being the first of its kind to emerge locally in the country. It can capture the first-comer advantage and can take advantage of the broad customer base that is only increasing as the bond market continues to grow. This helps CGCC stay true to its mission of providing MSMEs with access to funds and capital while also lending a helping hand to the local securities sector.

CGCC is a government-backed and state-owned entity that carries a lot of advantages. While it does have full support from the Cambodian government to rely on, CGCC has been managing just fine on its own with just one capital issuance from the government at its incorporation in 2020. It has been using that capital wisely and has been growing its equity base very efficiently through revenue retention and increasing support for its operations by improving its customer base and extending its partnership. With a high ratio of current to non-current assets, CGCC has a large pool of highly liquid assets that could easily be used to cover any defaults on its guaranteed portfolio. Currently, CGCC can cover its outstanding guaranteed amount more than twice over with just its current assets alone. Coupled with its low liabilities, a growing and stable revenue stream that would only increase its highly liquid asset base with a robust commitment towards growing the MSMEs base and their financial inclusion through facilitating their access to the capital market, CGCC has maintained its position as the go-to guarantor for loans and bonds in Cambodia.

Disclaimer

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APPENDIX

Key Ratios

	2021	2022	2023
Term deposits to Total assets	93.62%	92.24%	92.53%
Investment income to Revenue	98.79%	96.16%	92.95%
Investment income to Operating costs	5.96	2.92	4.05
Current ratio	513.12	152.83	51.55
Current Assets to Total Guarantee Portfolio	9.62	2.31	1.39
Current Assets to Outstanding Guarantee Portfolio	N/A	3.02	1.97
Total Guarantee Portfolio to Equity	0.10	0.43	0.72
Outstanding Guarantee Portfolio to Equity	N/A	0.33	0.51
Guarantee Income to Guarantee Account (USD)	322.04	510.32	579.37
Total Guarantee Portfolio to Revenue	2.34	6.74	10.12
Equity-to- Asset ratio	0.998	0.993	0.980

Statement of Profit and Loss

In USD	2021	2022	2023
Guarantee income	61,510	502,665	1,117,023
Other income	49,919	25,497	30,800
Operating income	111,429	528,162	1,147,823
Interest income	9,684,481	14,060,261	16,021,133
Related investment expense	(601,884)	(836,511)	(896,299)
Net investment income	9,082,597	13,223,750	15,124,834
Revenue	9,194,026	13,751,912	16,272,657
Marketing expense	(38,977)	(200,727)	(177,262)
Personnel expense	(860,501)	(1,320,453)	(1,835,370)
Expected credit losses for guarantee schemes	(37,261)	(443,471)	(3,021,180)
Administrative and other operating expense	(347,913)	(357,211)	(518,492)
Currency translation gain/(loss)	(239,591)	(2,212,706)	1,814,723
Operating expense	(1,524,243)	(4,534,568)	(3,737,581)
Finance cost	-	(17,007)	(19,855)
Profit before tax	7,669,783	9,200,337	12,515,221
Tax expense	(8,611)	(58,789)	(84,436)
Profit for the year	7,661,172	9,141,548	12,430,785

Balance Sheet

In USD	2021	2022	2023
Assets			
Property, plant, and equipment	329,593	591,878	473,674
Intangible Assets	60,000	126,000	382,890
Right-of-use assets	-	239,072	182,820
Investment in securities	-	1,943,160	1,958,384
Deferred tax asset	-	-	14,545
Other receivables	-	680,616	1,682,281
Total non-current assets	389,593	3,580,726	4,694,594
Cash and Cash Equivalents	3,731,892	5,635,439	4,063,430
Trade and other receivables	9,098,611	7,670,475	8,649,947
Term deposits	193,912,610	200,596,954	215,534,364
Total current assets	206,743,113	213,902,868	228,247,741
Total assets	207,132,706	217,483,594	232,942,335



Equity and liabilities			
Share capital	200,000,000	200,000,000	200,000,000
Retained earnings	7,661,172	16,802,720	28,302,125
Exchange differences	(931,380)	(931,380)	-
Total equity	206,729,792	215,871,340	228,302,125
Liabilities			
Lease liabilities	-	212,620	212,620
Total non-current liabilities	-	212,620	212,620
Guarantee fee due unearned	112,307	390,889	535,621
Deferred income - Consultant service	-	-	72,727
Other payables	216,149	430,394	814,177
Expected credit losses of guarantee schemes	37,263	480,597	2,950,234
Current income tax liabilities	6,583	19,717	35,454
Current lease liabilities	-	40,433	-
Severance pay	30,612	37,604	19,377
Total current liabilities	402,914	1,399,634	4,427,590
Total liabilities	402,914	1,612,254	4,640,210
Total equity and liabilities	207,132,706	217,483,594	232,942,335

Statement of Cash Flows

In USD	2021	2022	2023
Cash flows from operating activities			
Profit before tax	7,669,783	9,200,337	12,515,221
Adjustments for:			
Depreciation of property, plant, and equipment	1,902	96,093	138,609
Depreciation of right-of-use asset	-	42,189	56,252
Depreciation of intangible asset	-	-	40,110
Expected credit loss from guarantee schemes	37,261	443,471	3,021,180
Claims on credit loss for guarantee	-	-	(551,543)
Finance costs	-	17,007	19,855
Severance pay	30,612	6,992	(18,227)
Interest income	(9,684,481)	(14,060,261)	(16,021,133)
Net unrealized foreign exchange loss	239,591	2,212,706	(1,814,723)
Other receivables	1,186,473	411,931	(13,902)
Other payables	349,412	478,971	601,242
Net cash generated/(used) in operations	(169,447)	(1,150,564)	(2,027,059)
Interest income received	(631,355)	14,285,610	14,121,950
Interest paid	-	(17,007)	(19,855)
Tax paid	(2,028)	(45,655)	(83,244)
Net cash generated from operating activities	(802,830)	13,072,384	11,991,792
Cash flows from investing activities:			
Purchase of property, plant, and equipment	(331,495)	(358,378)	(20,405)
Purchase of intangible asset	(60,000)	(66,000)	(297,000)
Investment in securities	-	(1,943,160)	-
Term deposits	(194,140,192)	(8,773,091)	(13,205,963)
Net cash used in investing activities	(194,531,687)	(11,140,629)	(13,523,368)
Cash flows from financing activities:			
Repayment of lease	-	(28,208)	(40,433)
Net cash used in financing activities	-	(28,208)	(40,433)
Cash and cash equivalents, beginning of period	200,000,000	3,731,892	5,635,439



Net increase (decrease) in cash and cash equivalents	(195,334,517)	1,903,547	(1,572,009)
Exchange differences	(933,591)	-	-
Cash and cash equivalents, end of period	3,731,892	5,635,439	4,063,430

(end of the report)

