

# Liangshan Development (Holdings) Group Co., Ltd.

## Surveillance Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	4 November 2021

### Key Figures of Liangshan and LDHG

(RMB billion)	2019	2020
<b>Liangshan</b>		
GDP	167.6	173.3
GDP growth rate (%)	5.6	3.9
Budgetary revenue	15.4	16.0
Government fund	11.0	8.3
Transfer payment	50.4	53.8
Budgetary expenditure	73.7	70.8
<b>LDHG</b>		
Assets	70.5	90.2
Equity	25.0	36.4
Revenue	3.5	4.2

Note: LDHG's financial data for 2019 has been adjusted according to its announcement in the 2020 annual report.

Source: Liangshan Bureau of Statistics, The People's Government of Liangshan Yi Autonomous Prefecture, LDHG and Lianhe Global's calculations

**Lianhe Global has affirmed 'BBB-' global scale Long-term Issuer and Issuance Credit Rating to Liangshan Development (Holdings) Group Co., Ltd. ("LDHG"); Issuer Rating Outlook Stable.**

### Summary

The Issuer Rating reflects a high possibility that Sichuan's Liangshan Yi Autonomous Prefecture ("Liangshan") would provide strong support to LDHG if needed, in light of the Liangshan government's majority ownership in LDHG, the strategic importance of LDHG to Liangshan and the strong linkage between the Liangshan government and LDHG, including management supervision and strategic alignment. In addition, the Liangshan government may face adverse impact on its reputation, and business and financing activities should LDHG encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that LDHG's strategic importance would remain intact while the Liangshan government will continue to ensure LDHG's stable operation. The Liangshan government has provided ongoing strong support to LDHG, including asset and capital injections, financial subsidies, preferential tax policies, etc.

### Rating Rationale

**A Majority Stake by Liangshan:** Liangshan has a majority ownership of LDHG via the SASAC of Liangshan which is appointed by the prefectural government to supervise state-owned entities. The remaining shareholders are the SASACs or Finance Bureaus of subordinate counties. LDHG's paid-in capital increased to RMB6,600 million after the RMB958 million transfer from capital reserves in 2020. The ownership structure remained unchanged at end-June 2021. SASAC of Liangshan's ownership of LDHG was 58.6%.

**Strategic Importance:** LDHG is Liangshan's largest and most important investment and financing platform. The Liangshan government is committed to developing LDHG with the responsibility as a state-owned investing and financing platform by consolidating state-owned enterprises and assets. Ongoing consolidations of industrial and capital resources through asset/capital injections and project acquisitions have expanded LDHG's business scope and asset size. However, we believe LDHG's policy role is not as prominent as before, as its commercial related business segments have been contributing more diverse traditional LGFV-related segments.

**Government Supervision and Strategic Alignment:** SASAC of Liangshan has strong management supervision over LDHG (including approvals of board members and senior managers and major operating and financing plans) mainly through shareholder meetings and board meetings. LDHG's strategic planning and development have been aligned with the prefectural government's economic and social policies in areas such as poverty alleviation, education and infrastructure.

**Ongoing Government Support:** LDHG has received capital and asset injections from the Liangshan government directly or indirectly from state-owned entities. The injections include equity capital, land and other fixed assets. LDHG has also received financial subsidies from the government mainly for supporting its public welfare and daily operations. Some of LDHG's

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### Applicable Criteria

[China Local Government Financing Vehicle Criteria \(16 July 2018\)](#)

subsidiaries have enjoyed preferential income tax rates. At end-June 2021, LDHG's five subsidiaries have been classified as the enterprises in the western region carrying out the western development strategy and were levied at 15% income tax, which was lower than the normal 25% tax rate. One subsidiary has been exempted from taxation which is engaged in agriculture, forestry, animal husbandry and fishery projects.

**Liangshan's Creditworthiness:** Liangshan continually received strong transfer payments from the central and provincial governments mainly in the form of transfer payments to support the development of rural impoverished areas and ethnic minorities. According to the announcement issued by Sichuan Provincial Government in November 2020, Liangshan has cleared all poverty-stricken counties. We expect Liangshan to receive ongoing strong transfer payments to support its fiscal expenditure. The strong fiscal support helps Liangshan maintain a low debt ratio (i.e. total government debt divided by aggregate fiscal revenue) of c. 49.0% at end-2020.

**Moderately Weak Standalone Profile:** LDHG's standalone credit profile remains weak in view of its capital expenditure, resulting in negative cash flow from its investment, high leverage and modest liquidity. LDHG's financial leverage (total liabilities to assets) was 59.8% at end-June 2021. RMB8.0 billion of the total outstanding debt (RMB27.4 billion) will be due within one year, compared with LDHG's unrestricted cash of RMB7.5 billion and available credit lines of RMB5.9 billion at end-June 2021.

### Rating Sensitivities

We would consider downgrading LDHG's rating if (1) there is perceived weakening in support from Liangshan, particularly due to its reduced strategic importance if it is no longer the largest and most important investment and financing platform in Liangshan, or (2) there is a downgrade in our internal credit assessment on Liangshan.

We could consider upgrading LDHG's rating if (1) there is strengthened support from Liangshan, or (2) there is an upgrade in our internal credit assessment on Liangshan.

### Company Profile

LDHG was established in December 2008 under the 2008 government directive (no.319) by amalgamating Liangshan National Investment Company, Liangshan State-owned Asset Management Limited Company and Liangshan Investment Company. LDHG increased its registered capital to RMB6.6 billion at end-2020 from the initial capital of RMB386 million after several capital injections. At end-June 2021, SASAC of Liangshan was the largest shareholder with 58.6% ownership of LDHG, followed by the Sichuan Provincial Finance Department of 10% and the remaining shareholders were the SASACs or Finance Bureau of subordinate counties in Liangshan.

### Full List of Issuance Ratings

A full list of affirmed issuance rating is included below. Any action on LDHG's rating would result in a similar rating action on its USD bonds:

- USD300 million 7.0% senior unsecured bonds due 2022 affirmed at 'BBB-'

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