

**Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Fujian Zhanglong Group Co., Ltd.**

HONG KONG, 29 June 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Fujian Zhanglong Group Co., Ltd. (“Zhanglong Group” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Zhangzhou Municipal People’s Government (“Zhangzhou government”) would provide strong support to Zhanglong Group if needed, in light of its 90% ownership of Zhanglong Group, Zhanglong Group’s strategic position as an important state-owned assets operation and development entity of Zhangzhou and the strong linkage between the Zhangzhou government and Zhanglong Group, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Zhangzhou government may face significant negative impact on its reputation, business and financing activities should Zhanglong Group encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that Zhanglong Group’s strategic importance would remain intact while the Zhangzhou government will continue to ensure Zhanglong Group’s stable operation.

**Key Rating Rationales**

**Zhangzhou Government’s Ownership and Strong Supervision:** The Zhangzhou government has 90% ownership of Zhanglong Group via the State-owned Assets Supervision and Administration Commission of the Zhangzhou government (“Zhangzhou SASAC”). The other 10% stake is held by Fujian Provincial Department of Finance. The Zhangzhou government also has strong control and supervision over Zhanglong Group, including control of the board of directors, senior management appointments, major strategic, investment and financing planning.

**Strategic Importance and Strategic Alignment:** Zhanglong Group is an important state-owned entity that is mainly responsible for regional industrial development, infrastructure construction and operation of Zhangzhou, to support the local economic and industrial development, as well as urban infrastructure construction and development. Zhanglong Group’s water business has franchise advantage, in which it supplies water to more than 90% of the urban area of Zhangzhou. Zhanglong Group plans to expand the operating scale of water business and sustain the development of supply chain business. Additionally, Zhanglong Group has set up an urban development fund to promote the upgrading of urban infrastructure and improve the comprehensive financing capacity of Zhangzhou’s state-owned enterprises.

**Ongoing Government Support:** Zhanglong Group has received supports from the Zhangzhou government for its business operation, mainly including asset injections, government subsidies, financial support, and it also benefits from preferential tax and/or tax exemption policies in encouraged industrial and/or utilities business. Zhanglong Group had received total government support in the form of asset injections of approximately RMB4 billion between 2019 and end-March 2022, mainly including equity of farms, stocks of Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd (600436.SH) and other quality assets. Zhanglong Group has received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects. We believe Zhanglong Group is likely going to receive timely government support in the form of operational and/or financial subsidies.

**Moderately Weak Financials and Debt Burden:** Zhanglong Group's financial leverage as measured by total liabilities/total assets has been at a relatively high level at c. 66%-69% in the past three years. We expect its financial leverage to remain below 70% considering the government's supervision. At end-March 2022, Zhanglong Group had unrestricted cash of approximately RMB3.4 billion, and yet the total debt of the company was approximately RMB37.3 billion, of which short-term debt accounted for the majority of c. RMB23.0 billion. Having said that, Zhanglong Group has wide access to financing channels and established relationships with banks, with available credit line of c. RMB19.1 billion at end-March 2022, and part of short-term debt can be issued on a rolling basis.

**Moderate Economic and Fiscal Conditions of Zhangzhou:** As a seaside city, Zhangzhou provides a network of roadways to access seaports for the central regions and benefits from the development of the West Coast Economic Zone. Zhangzhou's GDP reached RMB502.5 billion, representing a year-over-year growth rate of 7.7%, in 2021. The economic growth was mainly fueled from the secondary and tertiary industries.

Zhangzhou's aggregate fiscal revenues were mainly derived from budgetary revenue. The tax revenue accounted for approximately 65%-70% of its budgetary revenue in the past three years. Zhangzhou's fiscal deficit has been at a relatively high level. The fiscal self-sufficiency rate of Zhangzhou was relatively low, leading it to continue to receive subsidies from higher government authorities.

### **Rating Sensitivities**

We would consider downgrading Zhanglong Group's rating if (1) there is a perceived weakening in support from the Zhangzhou government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Zhangzhou government's ownership of Zhanglong Group, or (3) there is a downgrade in our internal credit assessment on the Zhangzhou government.

We would consider upgrading Zhanglong Group's rating if (1) there is strengthened support from the Zhangzhou government, or (2) there is an upgrade in our internal credit assessment on the Zhangzhou government.

## **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

## **Rating Methodology**

The principal methodology used in this Zhanglong Group's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

## **Contact Information**

Primary Analyst

Ben Yau

Director

(852) 3462 9586

[ben.yau@lhratingsglobal.com](mailto:ben.yau@lhratingsglobal.com)

Committee Chairperson

Alex Kung

Senior Director

(852) 3462 9577

[alex.kung@lhratingsglobal.com](mailto:alex.kung@lhratingsglobal.com)

Business Development Contact

Joyce Chi

Managing Director

(852) 3462 9569

[joyce.chi@lhratingsglobal.com](mailto:joyce.chi@lhratingsglobal.com)

## Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the company’s website: [www.lhratingsglobal.com](http://www.lhratingsglobal.com)

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2022.