

Hangzhou Linjiang Investment Development Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	18 October 2022

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Hangzhou Linjiang Investment Development Co., Ltd. (“Linjiang Investment” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Qiantang District (“Qiantang government”) would provide strong support to Linjiang Investment if needed, in light of its 100% ownership of Linjiang Investment through the Hangzhou Qiantang New District Management Committee (“Qiantang District MC”), the high strategic importance of Linjiang Investment to Qiantang District (“Qiantang”) in infrastructure construction and state-owned asset operation, as well as industrial park construction in Xiaoshan Linjiang High-tech Industrial Park (“Linjiang High-tech Zone”), and the strong linkage between the Qiantang government and Linjiang Investment, including control and supervision over Linjiang Investment’s management, strategic alignment and operational and financial support. In addition, the Qiantang government and other state-owned companies in the region may face significant negative impact on its reputation, business and financing activities if Linjiang Investment encounters any operational and financial difficulties.

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

Rating Rationale

Qiantang Government’s Ownership and Strong Supervision: Linjiang Investment is wholly owned by the Qiantang government through Qiantang District MC. The registered capital increased from the initial of RMB68 million to RMB500 million at end-June 2022. The Qiantang government has strong control and supervision over Linjiang Investment, including control of the board of directors, management supervision, decision on its strategic development and investment plan, supervision of its major funding decisions and daily operation.

Strategic Importance and Strategic Alignment: As an important and the major LGFV in Qiantang, Linjiang Investment is responsible for infrastructure construction, state-owned assets operation and industrial park construction to promote the development of Qiantang. As the sole LGFV that undertakes the investment and financing for infrastructure construction in the Linjiang High-tech Zone, Linjiang Investment has the franchise advantage in the area and a clear division of functions with the other LGFVs in Qiantang. Linjiang Investment’s strategic planning and development have been aligned with the local government’s economic and social policies.

Ongoing Government Support: The Qiantang government subsidizes Linjiang investment based on its operation and capital needs, apart from the scheduled repurchase of infrastructure construction related transactions. Linjiang Investment received subsidies of RMB170 million and RMB200 million in 2019 and 2020, respectively. Given the franchise advantage in infrastructure and transportation project construction in the Linjiang High-tech Zone, we believe Linjiang Investment is likely going to receive government supports in the

Key Figures of Qiantang and Linjiang Investment

(RMB billion)	2020	2021
Qiantang		
GDP	109.6	121.8
GDP growth rate (%)	2.7	6.6
Budgetary revenue	10.0	11.7
Government fund	0.9	18.2
Transfer payment	1.2 ¹	0.9
Budgetary expenditure	12.5	13.6
Linjiang Investment		
Assets	24.7	25.5
Equity	11.6	11.8
Revenue	1.0	1.0

Source: Qiantang government, Qiantang Finance Bureau, Linjiang Investment and Lianhe Global’s calculations

¹ Transfer payment in 2020 is estimated given the lack of such information

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Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

form of operational and/or financial subsidies if its net income were to experience a significant decline.

Moderate Financials and Sufficient Liquidity: Linjiang Investment had a total asset of RMB23.6 billion at end-June 2022. Its financial leverage as measured by total liabilities/total assets remained stable at a moderate level of c. 50%-57% between 2019 and 1H2022. Linjiang Investment has mostly relied on borrowings to fund its capital expenditure. Its total adjusted debt decreased to RMB9.8 billion at end-June 2022 from RMB13.1 billion at end-2021. The liquidity of Linjiang Investment was sufficient as it had a cash balance of approximately RMB1.1 billion and unused credit facilities of RMB 7.2 billion, compared with debt due within one year of c. RMB3.6 billion at end-June 2022. Linjiang Investment has access to various financing channels including onshore and offshore bank loans, bond issuances and non-traditional financing etc., to support its debt repayment and business operation. One of Linjiang Investment's subsidiaries, Linjiang Investment (Hong Kong) Co., Ltd., issued a USD300 million offshore bond in December 2019.

Moderately Weak Economic and Fiscal Conditions of Qiantang: Qiantang's GDP reached RMB121.8 billion in 2021, representing a year-on-year growth rate of 6.6%. Qiantang's GDP was mostly fueled by secondary and tertiary industries, accounting for 68.0% and 30.9% of its total GDP, respectively, in 2021. The Qiantang government's aggregate fiscal revenue was mainly derived from budgetary revenue and government-managed fund. The tax revenue accounted for over 90% of its budgetary revenue in the past three years. The debt ratio (i.e., total government debt divided by aggregate revenue) was at a moderately high level. At end-2021, the total outstanding amount of government debt was c. RMB27.9 billion (compared with c. RMB25.9 billion at end-2020), including RMB14.6 billion of general obligations and RMB13.4 billion for special projects.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Qiantang

Qiantang is one of the ten districts in Hangzhou with a total land area of 531.7 square kilometers. It was established in April 2021 following the transformation from Hangzhou Qiantang New District, which was a provincial new district established in 2019 that integrated the Hangzhou Economic and Technological Development Zone and the Dajiangdong Industrial Cluster across the Qiantang River. According to the 7th National Census held in 2020, Qiantang's residential population reached c. 0.8 million, accounting for 6.5% of Hangzhou's residential population with an urbanization rate of 88.2%. Qiantang's GDP reached RMB121.8 billion in 2021, representing a year-on-year growth rate of 6.6%. Qiantang's GDP was mostly fueled by secondary and tertiary industries, accounting for 68.0% and 30.9% of its total GDP, respectively, in 2021.

Qiantang has five leading industries, including bio medicine, modern food, equipment manufacturing, electronic information and new energy/materials. Qiantang Highspeed Railway Station is planned to be built in the region, which will help to integrate the district into the Yangtze River Delta region. Linjiang High-tech Zone is a state high- and new-tech industrial development zone located on the south bank of Qiantang River, close to the estuary of Hangzhou Bay, with a total land area of 160.2 square kilometers. It is the largest new zone in the Dajiangdong region whose development orientation is to focus on advanced manufacturing industry. The number of industrial enterprises above the designated size reached 90 at end-June 2022.

Qiantang's GDP and Fixed Asset Investment			
(RMB billion)	2019	2020	2021
GDP	110.0	109.6	121.8
-Primary industry (%)	1.2	1.3	1.1
-Secondary industry (%)	69.3	66.8	68.0
-Tertiary industry (%)	29.5	31.9	30.9
GDP growth rate (%)	2.1	2.7	6.6
Fixed asset investment	35.8	41.1	46.1
Fixed asset investment growth rate (%)	-	15.0	12.1
Population (million)	0.8	0.8	0.8

Source: Qiantang government and Lianhe Global's calculation

Fiscal Condition of Qiantang

Qiantang's fiscal revenue growth rates fluctuated in the past two years. Its budgetary revenue decreased by 8.1% and 5.2% in 2019 and 2020, respectively, but grew by 17.0% in 2021, mainly due to the increase of tax revenue. The tax revenue accounted for over 90% of its budgetary revenue between 2019 and 2021. The revenue from the government-managed fund, mainly generated from land use rights transfer, increased sharply to RMB18.2 billion in 2021 from RMB0.9 billion in 2020. Nevertheless, the increase was ostensibly on the basis of different statistical base as a result of Qiantang's transformation into administrative district in 2021, before which the government-managed fund income in the district was partially distributed to Hangzhou's city level budget. The revenue of the government-managed fund decreased by 7.4% in 2021 compared with that in 2020 after retrospective adjustment, mainly due to the decreasing income from transfer of state-owned land use right and cancellation of some charging items.

At the same time, Qiantang received transfer payments from the higher-level government in past three years, of which the tax refund income had been negative (additional tax payment to higher-level government) due to the “50-50” VAT policy. The general and special transfer payments were on a relatively stable base. In terms of Qiantang’s government debt, the debt ratio (i.e., total government debt divided by aggregate revenue) was at a moderately high level. At end-2021, the total outstanding amount of government debt was c. RMB27.9 billion (compared with c. RMB25.9 billion at end-2020), including RMB14.6 billion of general obligations and RMB13.4 billion for special projects. In addition, Qiantang’s total outstanding debt has been extremely close to its debt ceiling.

Qiantang’s Fiscal Condition			
(RMB billion)	2019	2020	2021
Budgetary revenue	10.6	10.0	11.7
Budgetary revenue growth rate (%)	-8.1	-5.2	17.0
Tax revenue	9.7	9.3	10.9
Tax revenue (% of budgetary revenue)	91.4	92.4	93.1
Government fund income	0.7	0.9	18.2
Transfer payment	1.2	1.2 ²	0.9
Aggregate revenue	12.4	13.7	30.8
Budgetary expenditure	8.0	12.5	13.6
Budget deficit ¹ (%)	24.5	-24.7	-16.1

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

² The transfer payment in 2020 was not available, thus 2019’s data is used for estimation.

Source: Qiantang Finance Bureau and Lianhe Global’s calculations

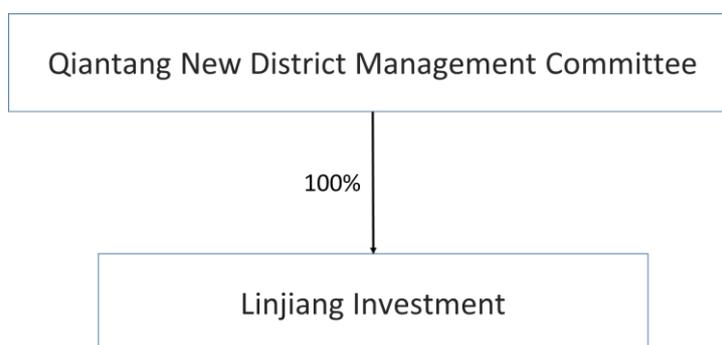
Ownership Structure and Profile

Government’s Ownership with Strong Supervision

Under the approval of Hangzhou Xiaoshan District’s government, Linjiang Investment was established by Xiaoshan Linjiang Industrial Park Management Committee (“Linjiang IPMC”) in 2003 as the main entity that was responsible for the infrastructure construction in Linjiang High-tech Zone, with an initial registered capital of RMB68 million. Hangzhou Xiaoshan District State-owned Assets Management Corporation (“Xiaoshan State-owned Assets”) and Linjiang IPMC increased Linjiang investment’s capital by RMB32 million and RMB200 million in 2007 and 2010, respectively, after which Linjiang Investment’s registered capital was enlarged to RMB300 million. Linjiang IPMC and the Xiaoshan State-owned Assets held 89.33% and 10.67% of Linjiang Investment’s shares, respectively.

Linjiang IPMC was renamed as Xiaoshan Linjiang High-tech Industrial Park Management Committee in 2013, and was further merged into Hangzhou Dajiangdong Industrial Cluster Management Committee (“Dajiangdong MC”). In 2016, Xiaoshan State-owned Assets transferred its 10.67% of Linjiang Investment’s shares to Dajiangdong MC, making the latter held 100% of the company’s shares. Dajiangdong MC increased the company’s registered capital by RMB200 million in 2017, which enlarged Linjiang Investment’s registered capital to RMB500 million. In September 2019, Dajiangdong MC transferred 100% of Linjiang Investment’s shares to Qiantang District MC, after which the latter is the sole shareholder and the ultimate controller of Linjiang Investment.

Linjiang Investment is the major state-owned entity for infrastructure construction in Linjiang High-tech Zone, and it is also the important entity for state-owned assets operation and industrial park construction in the region. Linjiang Investment undertakes infrastructure projects that are aligned with the Qiantang government’s plan and has exclusive advantage in Linjiang High-tech Zone.



Source: Linjiang Investment and Lianhe Ratings Global

Strategic Importance and Government Linkage

High Strategic Importance of Linjiang Investment to Qiantang

Linjiang Investment is an important LGFV that is responsible for infrastructure construction and state-owned asset operation in Qiantang. As the sole LGFV who undertakes the investment and financing for infrastructure construction in Linjiang High-tech Zone, Linjiang Investment has the franchise advantage in the area and a clear division of functions with the other LGFVs in Qiantang. The resettlement housing, transportation construction and transportation-oriented-development (TOD) project also help to promote the development of urban community in Qiantang.

Strong Linkage with the Qiantang Government

The Qiantang government indirectly holds 100% stake of Linjiang Investment through the Qiantang District MC and it is the ultimate controller. It has strong control and supervision over Linjiang Investment, including control of Board of Director, management appointment, decision on its strategic development and investment plan, supervision of its major funding decisions and daily operation. In addition, the Qiantang government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financials on a periodic basis. Linjiang Investment's business operation and development have been aligned with the government's economic and urban development plans.

Ongoing Government Support

According to the company, the Qiantang government subsidizes Linjiang investment based on its operation and capital needs, apart from the scheduled repurchase of infrastructure construction related transactions. Linjiang Investment received subsidies of RMB170 million and RMB200 million in 2019 and 2020, respectively. The Qiantang government will grant subsidies to Linjiang Investment if the company's annual net profit is below RMB200 million. As Linjiang Investment's net profit exceeded RMB200 million due to the higher investment income, the company did not receive any subsidy from the Qiantang government in 2021. Linjiang Investment has advantages to obtain land resources and major projects, as well as project funds for infrastructure constructions in Linjiang High-tech Zone, giving it a high probability of continuing to receive financial allocations from the Qiantang government. Besides, Linjiang Investment's implicit debt has been fully resolved at end-June 2022 with the support of the Qiantang government. We believe Linjiang Investment is likely going to receive government supports in the form of operational and/or financial subsidies if its net income were to experience a significant decline.

Business Profile

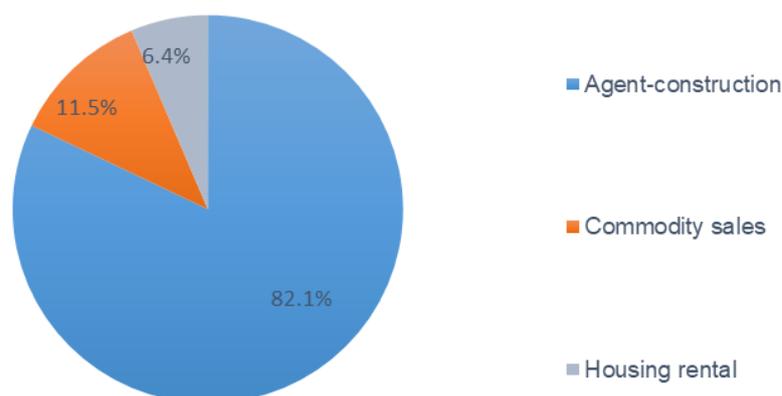
The Major LGFV Responsible for Infrastructure Construction and State-owned Assets Operation in Qiantang, especially in the Linjiang High-tech Zone

Linjiang Investment is the core investment and financing entity for infrastructure construction in Qiantang, especially in the Linjiang High-tech Zone, including road and pipeline construction, afforestation, port construction and other infrastructure related supporting facilities. It is also the important entity for state-owned assets operation and industrial park construction in the region. Linjiang Investment's business mainly focuses on construction and housing rental in the Linjiang High-tech Zone with a franchise advantage. It has also expanded its business to involve commodity sales since 2021. Given its exclusive status in the Linjiang High-tech Zone and the franchised advantage in the business it involved, Linjiang Investment is considered to be of high strategic importance.

The total revenue of Linjiang Investment was approximately RMB953.7 million, RMB970.4 million, RMB977.6 million and RMB394.6 million in 2019, 2020, 2021 and for the first six months of 2022, respectively. The company's overall gross margin declined to 4.3% in 2021 from 12.4% in 2020 largely due to the declining margin in the construction segment, driven by a 3.5 percentage point cut in the return on investment claimed in the repurchase agreement, as well as the increasing proportion of low-margin commodity sales segment. Linjiang Investment's business distribution is relatively concentrated. The construction segment accounted for more than 90% of its total revenue before 2020. Although the newly added segment, the commodity sales segment, helped to diversify Linjiang Investment's business, the relatively high proportion of revenue generated by construction, 82.1% for the first six months of 2022, still indicated a moderate concentration risk.

Revenue Breakdown

(Total revenue: c. RMB394.6 million for the first six months of 2022)



Source: Linjiang Investment and Lianhe Global's calculation

Construction Business

Linjiang Investment conducts infrastructure construction projects in the Linjiang High-tech Zone, including road and pipeline construction, resettlement housing and public rental housing construction and other infrastructure related supporting facilities. Entrusted by the

Qiantang District MC, Linjiang Investment takes the responsibility to invest in the construction of infrastructure, housing and municipal projects, after which Hangzhou Qiantang New Area Construction Bureau would repurchase those projects with an added margin beyond the total construction cost to ensure Linjiang Investment's profitability upon completion. The added margin, nevertheless, was adjusted to 5% since the establishment of Qiantang District from the previous 8.5%, posting a downward pressure to the gross margin of this segment. Per company, the adjustment was applied to all the LGFVs in the area owing to the integration and coordination of the Finance Bureau of Qiantang. In terms of project construction funds, 80% of the projects were funded all by Linjiang Investment itself, while the others were funded by self-owned funds and government allocated funds from Qiantang District MC, of which the former accounts for c. 70%.

The construction segment, as the largest contributor to Linjiang Investment's total revenue, generated income of RMB947.2 million, RMB909.9 million, RMB719.9 million and RMB324.0 million in 2019, 2020, 2021 and for the first six months of 2022, respectively. The decline in 2021 was mainly due to the impact from the fewer infrastructure projects. Most of the company's upcoming projects are road construction projects in the Linjiang High-tech Zone, such as Jingsi Road and Jingwu Road. Besides, Linjiang Investment is also responsible for the operation of the Linjiang port, the sole seagoing port in Hangzhou, and the construction of related supporting facilities to support the transportation development in the Linjiang High-tech Zone. The company may incur additional capital expenditure requirement for its upcoming construction projects. Also, the challenging real estate market conditions may post uncertainty of the revenue in this segment.

Rental Business

The rental business of Linjiang Investment mainly involves industrial park property rental, terminal rental and asset escrow rental. This segment generated a relatively small scale of revenue of RMB6.3 million, RMB42.8 million, RMB55.3 million and RMB25.2 million in 2019, 2020, 2021 and for the first six months of 2022, respectively. The gross margin of this segment was particularly high in 2019 and 2020, but dropped dramatically in 2021, from c. 93.1% to c. 12.4% as a result of the involvement of asset escrow rental income (c. 80% of the segment revenue) whose low margin dragged down the overall profitability. The asset escrow business income was in the form of 2% management fee from escrowing some operational assets of Hangzhou Qiantang New Area Urban Development Group Co., Ltd [杭州钱塘新区城市发展集团有限公司]. However, the gross margin of the segment rebounded to c. 84.9% for the first six months of 2022.

The property rental income was another source of income to this segment. The operating assets owned by Linjiang Investment in the Linjiang High-tech Zone, such as Linjiang Science and Innovation Park, waste transfer station and some residential properties, have a total available area for rent of c. 0.1 million square meters. The average rental rate of Linjiang Investment's operating assets was moderate, but this segment can still generate a stable cash flow to support related overhead. The main proposed construction project for rental is the third phase of the Science and Technology Innovation Park with a proposed capital expenditure of RMB150 million in the next 3 years.

Commodity Sales

Commodity sales is a new segment undertaken by Linjiang Investment since 2021, in which the goods traded are mainly wood pulp and aluminum ingots. The revenue generated in this segment was RMB202.3 million and RM45.4 million in 2021 and for the first six months of

2022, respectively, with a particularly low gross margin of c. 0.2% and c. 0.7%. The company cooperates with provincial and municipal state-owned enterprises and adopts a large-scale spot trading mode of standard products for this business. The company participates the industrial chain system of these state-owned enterprises to earn a price difference in the way of basing purchase volume on sale volume. The current customer concentration is relatively high, as the top five suppliers accounted for 95.5% of the total purchase, while the top two purchasers accounted for 95.5% of the total sales in 2021. The settlements are generally by cash. The company lowers the counterparty risk by accepting commercial bill and domestic letter of credit. Nevertheless, the outlook of this segment remains challenging given the decline of commodity trading volume.

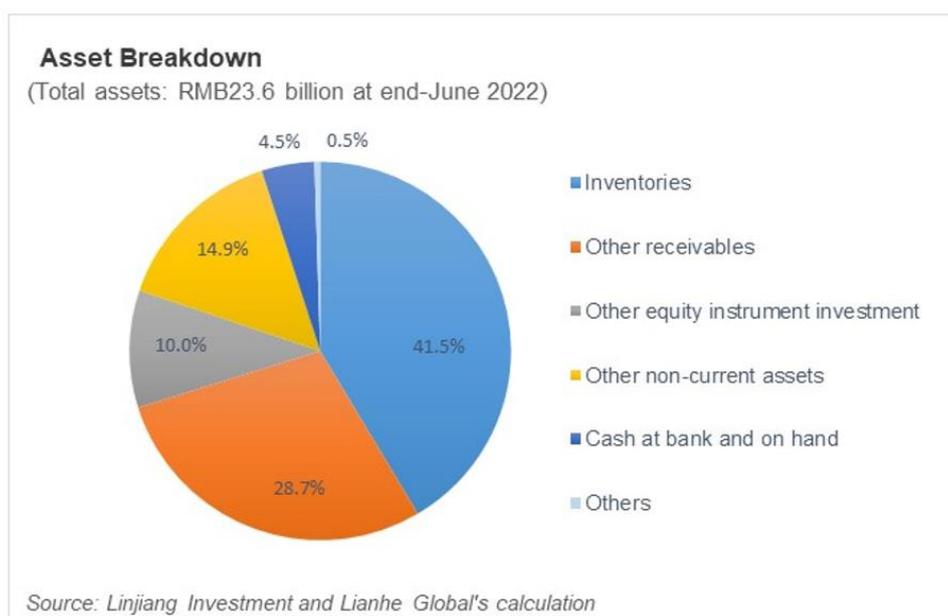
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality					
(RMB million)	2019	2020	2021	6M2022	6M2022 (Adjusted)*
Total Asset	25,812	24,672	25,548	23,647	23,647
Equity	10,990	11,640	11,801	11,889	11,492
Debt	13,972	11,874	13,115	9,494	9,891
Debt / (Debt + Equity) (%)	56.0	50.5	52.6	44.4	46.3
LT Debt	11,564	7,264	6,388	5,883	6,280
LT Debt / (LT Debt + Equity) (%)	51.3	38.4	35.1	33.1	35.3

Note: * Adjusted numbers and ratios reflect the perpetual debts reallocating to long-term debts and total debts from equity
 Source: Linjiang Investment and Lianhe Global's calculations

Linjiang Investment's total assets fluctuated slightly in past few years with growth rate of -4.4%, 3.6% and -7.4% at end-2020, 2021 and end-June 2022, respectively. The decrease in 1H2022 was mainly caused by c. RMB1.0 billion decrease in investment of other equity instrument. The asset structure was stable, with inventory, other account receivables, other non-current asset, other equity instrument investment and cash accounted for c. 99.5% of its total assets at end-June 2022, representing a highly concentrated asset distribution. The inventories, as the largest composition (41.5%) of the total assets, reached RMB9.8 billion at end-June 2022, of which the majority was infrastructure construction cost raised during the project construction in the Linjiang High-tech Zone. The other receivables decreased to RMB6.8 billion at end-June 2022 from RMB7.4 billion at end-2021, reflecting timely cash collection. The major counterparties of the other receivables were local government departments and the other LGFVs in the region, thus the company did not make any bad debt allowance at end-June 2022.



Linjiang Investment's financial leverage (total liabilities to assets) remained stable at a moderate level of c. 50%-57% between 2019 and 1H2022. We expect Linjiang Investment's financial leverage to increase but remain at below 60% considering the company's business development and government's supervision. Compared with the figures at end-2020, Linjiang Investment's total liabilities decreased by 9.8% to RMB11.8 billion at end-June 2022, while its total equities increased by 2.1% to RMB11.9 billion with unchanged equity structure. Linjiang Investment's liabilities mainly comprised debentures payable (38.1% of its total liabilities at end-June 2022, same as below), other payables (17.9%) and long-term borrowings (9.0%). Linjiang Investment mainly relies on external financing to support its capital expenditure. In view of its projects under construction and to be development, we expect Linjiang Investment's capital expenditure to increase in the future.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	6M2022
Cash Inflows from Operation	6,734	3,775	4,734	4,258
Cash Outflows from Operation	5,321	3,836	732	608
Net CF from Operation	1,413	-61	4,002	3,650
Cash Inflows from Investment	2	25	198	122
Cash Outflows from Investment	0	4	3,378	1
Net CF from Investment	2	21	-3,180	121
Cash Inflows from Financing	4,893	2,543	6,923	900
Capital Contribution	0	0	0	0
Borrowings	4,893	2,143	6,003	900
Others	0	400	920	0
Cash Outflows from Financing	3,951	5,108	7,166	4,803
Net CF from Financing	942	-2,565	-243	-3,903
Net Increase in Cash and cash equivalent	2,334	-2,614	580	-132

Source: Linjiang Investment's annual reports

Debt Servicing Capability

Linjiang Investment's total adjusted debt decreased to RMB9.8 billion at end-June 2022 from RMB13.1 billion at end-2021, mainly due to the decrease of current portion of non-current liabilities, of which short-term debt was c. RMB3.6 billion, accounted for 36.5% of the total. Linjiang Investment has actively repaid some long-term bank debts with high interest rates, resulting in the increasing proportion of short-term debt. Correspondingly, the company had cash balance of approximately RMB1.1 billion and unused credit facilities of RMB7.2 billion at end-June 2022, indicating a sufficient liquidity. Linjiang Investment has access to various financing channels including both onshore and offshore bank loans and corporate bonds etc., to support its debt repayment and business operation. One of Linjiang Investment's subsidiaries, Linjiang Investment (Hong Kong) Co., Ltd., issued a USD300 million offshore bond in December 2019.

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