

Liangshan Development (Holdings) Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	22 November 2022

Key Figures of Liangshan and LDHG

(RMB billion)	2020	2021
Liangshan		
GDP	173.3	190.1
GDP growth rate (%)	3.9	7.2
Budgetary revenue	16.0	17.3
Government fund	8.3	8.6
Transfer payment	53.8	43.3
Budgetary expenditure	70.8	62.4
LDHG		
Assets	90.2	101.8
Equity	36.4	46.8
Revenue	4.2	4.4

Source: Liangshan Bureau of Statistics, the Liangshan government, LDHG and Lianhe Global's calculations

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

Summary

The Issuer Rating reflects a high possibility that the Liangshan Yi Autonomous Prefecture Government ("Liangshan government") 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 significant negative impact on its reputation, 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, equity transfers, financial subsidies, preferential tax policies, etc.

Rating Rationale

Local Government's Ownership and Supervision: The Liangshan government has a majority ownership of LDHG via the State-owned Asset Supervision and Administration Commission of the Liangshan government ("SASAC of Liangshan"). The ownership structure of LDHG remained unchanged at end-June 2022, of which the SASAC of Liangshan held 58.6% stake and the Liangshan government is still the ultimate controller of LDHG. SASAC of Liangshan has strong management supervision over LDHG, including approvals of board members and senior managers and major operating and financing plans.

Strategic Importance and Alignment: LDHG is still the largest and most important investment and financing platform in Liangshan. The Liangshan government is committed to developing LDHG as the only prefecture-level state-owned investing and financing platform that is responsible for urban construction and supporting the economic development in the region. Ongoing consolidations of industrial and capital resources through asset/capital injections and project acquisitions have expanded LDHG's business scope and asset size. We believe LDHG's strategic importance will remain intact while the market risk may increase with the expansion of business scale and segments of operating business.

LDHG's strategic planning and development have been aligned with the prefectural government's economic and social development policies in areas such as poverty alleviation, education and infrastructure, as well as supporting the development of local small and medium-sized enterprises to support the local economic development.

Ongoing Government Support: LDHG has continued receiving capital and assets injections from the Liangshan government and other government departments in Liangshan. The injections include capital, cash, equity transfer, land and other fixed assets and intangible assets. LDHG (including its subsidiaries) received capital and assets injections of approximately RMB10.5 billion in 2021 (included in capital surplus). LDHG has also received financial subsidies from the local

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Applicable Criteria

[China Local Government Financing Vehicle Criteria \(31 December 2021\)](#)

government mainly for supporting its daily operation, infrastructure construction projects and public welfare services, etc. In addition, some of LDHG's subsidiaries have enjoyed preferential income tax rates and exemption from income tax. LDHG received RMB284.5 million and RMB57.2 million of government subsidies and tax benefits in 2021 and for the first half of 2022, respectively, to support its daily operations.

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 and high leverage. LDHG's financial leverage (total liabilities to assets) was 55.4% at end-June 2022. LDHG's total adjusted debt increased to c. RMB29.6 billion at end-June 2022. LDHG had a cash balance of approximately RMB6.8 billion (unrestricted cash of RMB6.7 billion) and unused credit line of c. RMB7.0 billion at end-June 2022, compared with its debt will be due within one year of c. RMB10.9 billion at the same time. LDHG has built a good relationship with banks and the total credit line will be further improved. LDHG has access to various financing channels including bank loans, onshore and offshore bonds issuance and other non-traditional financing.

Liangshan's Creditworthiness: Liangshan's GDP increased to RMB190.1 billion, representing a year-over-year growth rate of 7.2% and the industrial structure remained unchanged in 2021. The Liangshan government has persistently obtained strong support from the central and provincial governments mainly in the form of transfer payments to support the development of rural impoverished areas and ethnic minorities. We expect the Liangshan government to receive ongoing subsidies from higher governments to support its fiscal expenditure. The debt ratio (i.e. total government debt divided by aggregate fiscal revenue) of local government increased to c. 61.1% at end-2021 from c. 49.0% at end-2020. The Liangshan government had RMB42.3 billion outstanding debt at end-2021, including RMB31.1 billion of general obligations and RMB11.2 billion for special projects.

Rating Sensitivities

We would consider downgrading LDHG's rating if (1) there is perceived weakening in support from the Liangshan government, 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 the Liangshan government.

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

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 2022, 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.

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