

Fujian Zhanglong Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	30 June 2023

Key Figures of Zhangzhou and Zhanglong Group (RMB billion)

	2021	2022
Zhangzhou		
GDP	502.5	570.7
GDP growth rate (%)	7.7	6.9
Budgetary revenue	24.6	25.1
Government fund	22.1	22.7
Transfer payment	19.4	19.4
Budgetary expenditure	42.1	49.9
Zhanglong Group	2021	2023.3
Assets	64.4	84.0
Equity	20.0	26.4
Revenue	29.4	9.9

Source: Public information, Zhanglong Group and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer Credit Rating of Fujian Zhanglong Group Co., Ltd. (“Zhanglong Group” or “the company”); Issuer Rating Outlook Stable.

Summary

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.

Rating Rationale

Government’s Ownership and 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 sustain the development of supply chain business, while expand its public rental housing business in some districts and counties of Zhangzhou. 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, equity 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/equity injections of approximately RMB7.6 billion between 2020 and end-March 2023, mainly including public rental housing assets, stocks of Zhangzhou Pien Tze Huang Pharmaceutical Co., Ltd (600436.SH) and other quality assets.

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

Zhanglong Group has also received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects, amounted to RMB640 million from 2020 to end-March 2023. We believe Zhanglong Group is likely going to receive timely government support in the form of operational and/or financial subsidies.

Zhanglong Group's Financials and Liquidity Position: Zhanglong Group's total assets showed a continuous growth trend in the past few years, with the growth rates of 25.9% and 3.6% in 2022 and at end-March 2023, respectively. Zhanglong Group's financial leverage (total liabilities to assets) and total debt capitalization were 68.6% and 64.3% at end-March 2023, respectively, representing a stable trend. Zhanglong Group mainly relies on external financing for capital expenditure. The total adjusted debt of Zhanglong Group increased by c. 27.3% to RMB47.6 billion at end-March 2023 from RMB37.4 billion at end-2021, of which the short-term and long-term debt accounted for 60% and 40% of its total debt, respectively. The liquidity of Zhanglong Group was moderately tight. At end-March 2023, Zhanglong Group had total cash of c. RMB3.8 billion and a total credit line of RMB39.7 billion, of which approximately RMB18.5 billion was available, compared with its debt to be due within one year of c. RMB25.6 billion. Having said that, Zhanglong Group was able to mitigate the risk of the short-term debt burden through rolling over the bank borrowings and capital market refinancings. Zhanglong Group has access to multiple financing channels including bank borrowings, bond issuance and other financing channels such as finance lease.

Zhangzhou's Economy and Fiscal Condition: Zhangzhou's economic growth fluctuated in the past three years and recorded at 6.9% in 2022, with its GDP reaching RMB570.7 billion. Zhangzhou's GDP amount was ranked 4th out of all cities of Fujian in 2022. The aggregate fiscal revenue of the Zhangzhou government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Zhangzhou government increased to RMB25.1 billion and represented an annual growth rate of 16.7% in 2022, while the proportion of tax revenue to the budgetary revenue fell sharply from 71.6% 2021 to 51.8% in 2022, mainly due to the impact of the value-added tax credit refund policy. Nevertheless, Zhangzhou was able to maintain a steady government fund income, which reached RMB22.7 billion in 2022. The financial self-sufficiency rate of Zhangzhou remained low and recorded a budget deficit of 99.2% in 2022. The outstanding debt totalled RMB110.1 billion in 2022, including RMB40.9 billion general obligations and RMB69.2 billion special purpose debt. The debt ratio (total outstanding debt/aggregate fiscal revenue) increased to 160.9% in 2022 from 140.2% in 2021.

Rating Sensitivities

We would consider downgrading Zhanglong Group's rating if (1) there is 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.

Company Profile

Zhanglong Group was established in July 2001 with an initial registered capital of RMB100 million under the approval of the Zhangzhou government. After several capital injections and equity transfers, the registered capital and paid in capital of Zhanglong Group both became c. RMB3.83 billion at end-March 2023. The Zhangzhou government, as the actual controller of the company,



has 90% ownership of Zhanglong Group via the Zhangzhou SASAC. The other 10% stake is held by Fujian Provincial Department of Finance.

Zhanglong Group is a diversified state-owned entity that engages in infrastructure construction, water supply and sewage treatment, industrial park development in Zhangzhou. It also engages in trading business, property sales, expressway operation, modern agriculture, industrial investment and other businesses to facilitates the economic development and support the urban development of the region.

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