

Lianhe Ratings Global Limited has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhangzhou Transportation Development Group Co., Ltd.

HONG KONG, 10 July 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Zhangzhou Transportation Development Group Co., Ltd. (“ZZT” 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 ZZT if needed, in light of its 90% ownership of ZZT, ZZT’s strategic position as an important transportation infrastructure and assets operation entity in Zhangzhou City (“Zhangzhou”) and the strong linkage between the Zhangzhou government and ZZT 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 ZZT encounter any operational or financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Zhangzhou government directly holds 90% ownership of ZZT through the State-owned Assets Supervision and Administration Commission of the Zhangzhou government (“Zhangzhou SASAC”), and is the actual controller of the company. The remaining 10% stake of the company is held by the Fujian Provincial Department of Finance. The Zhangzhou government has strong control and supervision over ZZT, including control of the board of directors, senior management appointments and major strategic, investing and financing plans. In addition, the Zhangzhou government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Zhangzhou and Strategic Alignment: ZZT is the major entity responsible for transportation infrastructure construction and urban transportation operation in Zhangzhou. In general, ZZT plays an important role in promoting the economic and social development of the region as ZZT’s strategic planning and development have been aligned with the local government’s economic and social policies. In the future planning of the Zhangzhou government, ZZT will continue to be responsible for the transportation infrastructure construction and urban transportation operation to support the local economy development.

Ongoing Government Support: ZZT has received various and relatively stable financial subsidies from the local government, including transportation-related construction project subsidies and transportation subsidies from different levels of governments. Most of the subsidies were on a regular basis. In 2022, ZZT received a large amount of equity injections from local government. ZZT received a total of c. RMB1.7 billion of government subsidies between 2019 and 2022. We believe ZZT is likely going to receive government support in time of operational and/or financial subsidies.

ZZT's Financial Matrix and Liquidity Position: ZZT's total assets showed a continuous growth in the past few years, with a growth rate of 12.7%, 12.8% and 2.2% at end-2021, end-2022 and end-March 2023, respectively, and reached RMB52.4 billion at end-March 2023. ZZT's current assets accounted for 22.8% of its total assets at end-March 2023. ZZT's assets mainly consisted of construction in progress, fixed assets, account receivables, inventories and investment in equity instruments, which accounted for c. 79.8% of ZZT's total assets at end-March 2023. Construction in progress and fixed assets are mainly consisted of road and highways assets, while the majority of inventories was development cost of the infrastructure-related projects. ZZT's liquidity is tight. At end-March 2023, ZZT had cash of RMB1.75 billion (unrestricted cash of c. RMB46.2 million) and an unused credit line of RMB1.4 billion, compared with its debt to be due within one year of RMB6.2 billion. ZZT has access to multiple financing channels including bank borrowings, corporate bonds, offshore USD bonds and other financing channels.

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 of general obligations and RMB69.2 billion of 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 ZZT'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 ZZT, or (3) there is a downgrade in our internal credit assessment on the Zhangzhou government.

We would consider upgrading ZZT'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 investment and development companies, 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 ZZT's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

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

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