

Zhangzhou Transportation Development Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	10 July 2023

Key Figures of Zhangzhou and ZZT

(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
ZZT		
	2022	2023.3
Assets	51.3	52.4
Equity	13.9	14.1
Revenue	5.0	1.7

Source: Public information, ZZT and Lianhe Global's calculations

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

Summary

The Issuer Credit Rating reflects a high possibility that the Zhangzhou Municipal People's Government ("Zhangzhou government") would provide strong support to Zhangzhou Transportation Development Group Co., Ltd. ("ZZT" or "the company") 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.

Rating Rationale

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 approximately RMB1.7 billion of

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Applicable Criteria

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



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 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 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.

Operating Environment

Economic Condition of Zhangzhou

Zhangzhou is a prefecture-level city in southern Fujian Province bordering Guangdong Province. Zhangzhou enjoys geographical advantages from the development of the West Coast Economic Zone [海峡西岸经济区], which is an economic development zone located in west of the Taiwan Straits. As one of the important road networks in Fujian, Zhangzhou

plays a strategic role in the development of the West Coast Economic Zone that providing access to the seaports for central regions and strengthening economic cooperation between Central China, East and West China. Zhangzhou has jurisdiction over 4 districts and 7 county-level cities with a total land area of c.12,600 square kilometres and a residential population of c. 5 million.

The GDP of Zhangzhou reached c. RMB570.7 billion, representing a year-over-year growth rate of 6.9% in 2022, which was ranked 4th out of all cities in Fujian Province in terms of GDP in 2022. The economic growth was mainly fueled by the secondary and tertiary industries, accounting for 50.1% and 39.9% of GDP in 2022, respectively. Zhangzhou's GDP per capita was c. RMB112,578 and disposable income per capita c. RMB36,506, up 13.5% and 7.9% compared to 2021, respectively.

Zhangzhou's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	454.6	502.5	570.7
-Primary industry (%)	11.0	10.5	10.0
-Secondary industry (%)	45.2	49.0	50.1
-Tertiary industry (%)	43.8	40.5	39.9
GDP growth rate (%)	-3.9	7.7	6.9
Fixed asset investment	267.9	203.7	224.2
Fixed asset investment growth rate (%)	-27.8	8.2	10.1
Residential Population (million)	5.1	5.1	5.1

Source: Public information and Lianhe Global's calculation

Fiscal Condition of Zhangzhou

The Zhangzhou government's aggregate fiscal revenues are mainly derived from budgetary revenue. 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. The financial self-sufficiency rate of Zhangzhou remained low and recorded a budget deficit of 99.2% in 2022.

The outstanding debt of the Zhangzhou government continued to grow in 2022, mainly due to the rise in special purpose debt. The outstanding debt totaled 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.

Zhangzhou's Fiscal Conditions

(RMB billion)	2019	2020	2021
Budgetary revenue	21.9	24.6	25.1
Budgetary revenue growth rate (%)	-0.4	12.6	16.7
Tax revenue	14.3	17.6	13.0
Tax revenue (% of budgetary revenue)	65.4	71.6	51.8
Government fund income	23.4	22.1	22.7
Transfer payment	20.4	19.4	² 19.4
Aggregate revenue	66.4	67.2	68.4
Budgetary expenditure	44.5	42.2	49.9
Budget deficit¹ (%)	-103.7	-71.2	-99.2

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

² Transfer payment in 2022 is an estimated figure given the lack of information

Source: Public information and Lianhe Global's calculations



Ownership Structure and Profile

Government's Ownership with Strong Supervision

ZZT, formerly known as Zhangzhou Transportation Development Co., LTD [漳州市交通运输发展有限公司], was established by the Transportation Bureau of Zhangzhou in May 2011 with an initial registered capital of RMB100 million. In December 2014, ZZT's shareholder was changed to the Zhangzhou SASAC from the Transportation Bureau of Zhangzhou. In January 2015, the company changed its name to its current name. In October 2021, Zhangzhou SASAC transferred 10% of the equity of ZZT to the Fujian Provincial Department of Finance. As the Fujian Provincial Department of Finance only enjoys the earning right of the equity, the equity transfer would not have a material effect on Zhangzhou SASAC's control of ZZT. At end-March 2023, both the registered capital and paid-in capital of ZZT was RMB2.0 billion.

Strategic Importance and Government Linkage

The Strategic Importance of ZZT to Zhangzhou

ZZT is an important LIDC responsible for transportation infrastructure construction and urban transportation operation in Zhangzhou to support the local economy development. 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 in charge of state-owned capital investment and operation to support the local economy.

Strong Linkage with the Zhangzhou government

ZZT's linkage with the local government is strong, as the Zhangzhou government holds 90% ownership of ZZT through the Zhangzhou SASAC. The remaining 10% stake is held by 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.

Government Support

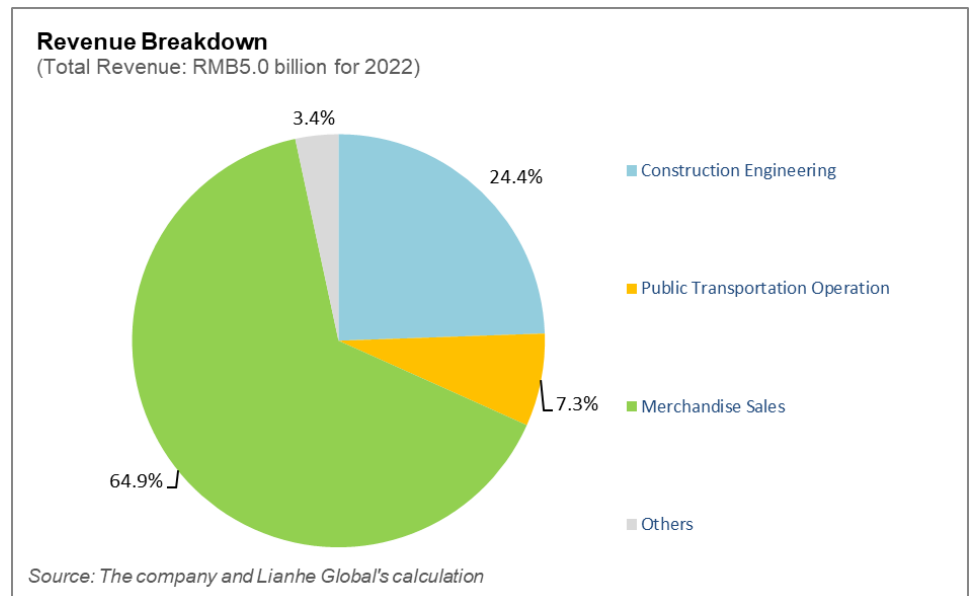
ZZT has received supports from the local government for its business operation, which are not limited to equity injections, asset injections and financial subsidies from the government in its daily management. ZZT has received various and relatively stable financial subsidies from the local government, 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 approximately 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.

Business Profile

A major LIDC responsible for transportation infrastructure construction and urban transportation operation in Zhangzhou

Responsible for transportation infrastructure construction and urban transportation operation, ZZT is one of the most important LIDCs in Zhangzhou. It also engages in merchandise sales business which contributes a large proportion of revenue with a low gross margin. Besides, it also undertakes other businesses such as fishing port investment management, cargo ship leasing and tourism development business to a lesser degree to facilitate the economic development in Zhangzhou.

The total revenue of ZZT was RMB4.0 billion, RMB3.5 billion, RMB4.2 billion, RMB1.8 billion, RMB5.0 billion and RMB1.7 billion in 2019, 2020, 2021, 2022 and the first three months of 2023, respectively. Its major source of revenue were construction engineering and merchandise sales, complemented by public transportation service, fishing port investment operation and tourism business, etc.



Construction Engineering

As the main source of the company's operating revenue, the transportation infrastructure construction is mainly operated under the agent construction mode. With no more new agent construction project since 2020, the company has only recognized income from the existing projects since then. Apart from the agent construction mode, ZZT also undertakes contracted construction business by participating in public bidding and invitation bidding to obtain contracted construction projects.

Public Transportation Operation

ZZT is also responsible for public transportation operation including long distance passenger transportation, taxi, shipping transportation in Zhangzhou. The company recorded net loss for this business in the past three years and mainly relied on government subsidies to maintain the operation.

Merchandise Sales

The merchandise sales business mainly involves steel, cement, asphalt and other building materials as well as coal and other bulk commodities. The company mainly follows the market principles to determine the purchase price and supply price to gain profit. However, the cash collection process may face negative impact if the credit condition of the counterparties deteriorates.

Financial Profile

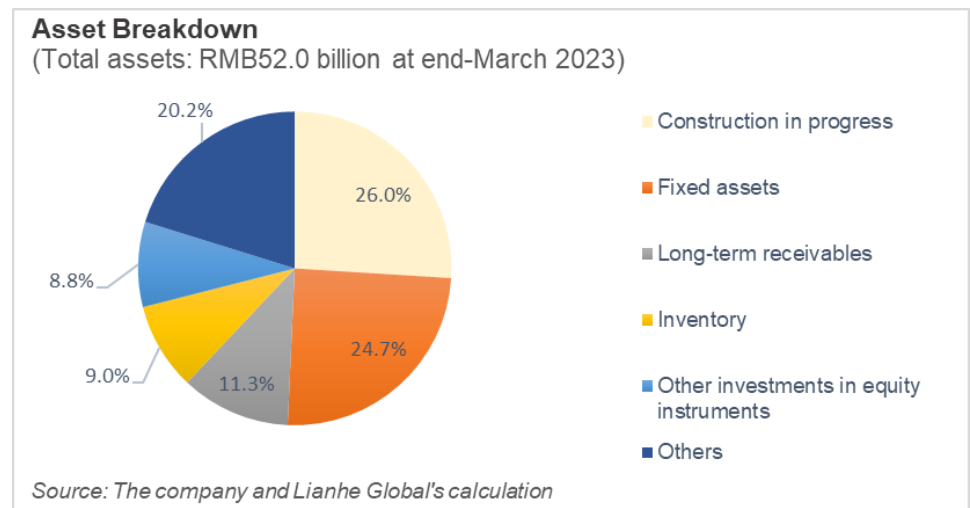
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality

(RMB million)	2020	2021	2022	1Q2023	1Q2023*
Total Assets	40,314	45,443	51,267	52,411	52,411
Equity	13,349	14,724	13,854	14,136	11,430
Debt	21,114	24,272	36,368	37,300	40,005
Debt / (Debt + Equity) (%)	61.3	62.2	72.4	72.5	77.8
LT Debt	15,480	17,580	28,957	31,091	33,797
LT Debt/(LT Debt + Equity) (%)	53.7	54.4	67.6	68.7	74.7

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

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 financial leverage (total liabilities to total assets) was 67.6%, 73.0% and 73.0% at end-2021, end-2022 and end-March 2023, respectively. We expect ZZT's financial leverage would remain at this level considering the government's supervision. ZZT's total adjusted debt (treating perpetual debts as debt instead of equity) reached c. RMB40 billion



at end-March 2023, of which short-term debt accounted for c. 15.5% of the total debt. Debt over capitalization ratio was 77.8% at end-March 2023. ZZT's total equity reached RMB14.1 billion at end-2023, with basically unchanged equity structure.

Debt Servicing Capability

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. Bank loans, corporate bonds and other financing channels.

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