

Lujiang County Rural Revitalization Investment Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	1 September 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Lujiang County Rural Revitalization Investment Co., Ltd. (“LCRRI” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Lujiang County, Hefei City (“Lujiang government”) would provide strong support to LCRRI if needed, in light of its full ownership of LCRRI, LCRRI’s strategic importance as the main local investment and development company (“LIDC”) that is responsible for promoting the rural revitalization in Lujiang County, Hefei City (“Lujiang”) (“Hefei”), and the linkage between the Lujiang government and LCRRI, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Lujiang government may face significant negative impact on its reputation and financing activities if LCRRI encounters any operational and financial difficulties.

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

Rating Rationale

Lujiang Government’s Ownership and Supervision: The Lujiang government holds the full ownership of LCRRI through Lujiang Finance Bureau (“Lujiang FB”), and it is the ultimate controlling shareholder of the company. The Lujiang government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Lujiang government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Lujiang and Strategic Alignment: LCRRI, as one of the major LIDCs in Lujiang, is primarily responsible for the land development and consolidation, management of tourist attractions, and development and operation of leisure agriculture and rural tourism resources in the region. It owns strong regional franchised advantages and plays an important role in serving the social and economic development to promote the rural revitalization in Lujiang.

Ongoing Government Support: LCRRI continued to receive financial subsidies and asset/capital injections from the Lujiang government to support its business operations; we believe that the government support will remain intact given the company’s strategic role in rural revitalization. From 2020 to 2022, LCRRI received certain financial subsidies. In addition, the asset and capital injections were injected by the Lujiang government in the form of land to be developed, land use rights, etc.

LCRRI’s Financial Matrix and Liquidity Position: LCRRI’s total assets showed a strong growth in the past few years, with a growth rate of 45.5% and 25.2% in 2021 and 2022, respectively, and reached RMB43.8 billion at end-1H2023. The increase of LCRRI’s total assets was largely due to the increase in inventories, account receivables and intangible assets and overall asset liquidity was weak.

Key Figures of Lujiang and LCRRI

(RMB billion)	2021	2022
Lujiang		
GDP	54.9	60.1
GDP growth rate (%)	6.0	7.8
Budgetary revenue	2.4	2.6
Government fund	1.0	0.9
Transfer payment	4.5	5.8
Budgetary expenditure	7.5	8.1
LCRRI	2022	2023.6
Assets	40.9	43.8
Equity	27.2	27.9
Revenue	2.0	0.8

Source: Public information, LCRRI and Lianhe Global’s calculations

Analysts

Karis Fan, CESGA
 (852) 3462 9579
karis.fan@lhratingsglobal.com

Joyce Huang, CFA
 (852) 3462 9586
joyce.huang@lhratingsglobal.com

Applicable Criteria

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

LCRRI's financial leverage (total liabilities to assets) increased notably to 36.3% at end-1H2023, from 19.5% at end-2020. We expect LCRRI to continue to rely on external financing to support its capital expenditures, while the management expects its leverage at below 60% in the next 1-2 years. At end-June 2023, LCRRI had unrestricted cash balance and unused credit facilities of RMB1.8 billion and RMB1.9 billion, respectively, compared with its debt due within one year of RMB2.0 billion. In addition, LCRRI's financing channel has concentrated in bank loans. Obtaining additional funding channels or government support would be needed for maintaining its liquidity.

Economy and Fiscal Condition of Lujiang: Lujiang is a county under the jurisdiction of Hefei City, Anhui Province, and is located in the south part of Hefei. Lujiang achieved rapid economic growth in 2021 and 2022, after a significant economic slowdown in 2020. Lujiang's GDP reached RMB60.1 billion in 2022, representing a year-over-year (y-o-y) growth rate of 7.8%, which was ranked the 1st among 59 counties and county-level cities of Anhui.

The aggregate fiscal revenue of the Lujiang government was mainly derived from the budgetary revenue and transfer payment. The budgetary revenue of the Lujiang government continued to grow in the past three years, and reached RMB2.6 billion in 2022, representing a y-o-y increase of 10.7%. The tax revenue accounted for around 82% of the budgetary revenue in 2020-2022. On the other hand, the Lujiang government highly relied on transfer payments from higher government, which reached RMB5.8 billion in 2022, accounting for 62.2% of aggregate fiscal revenue. The debt ratio (total outstanding debt/ aggregate fiscal revenue) climbed from 83.5% in 2020 to 132.6% in 2022, mainly due to the increase in special debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Lujiang

Lujiang is a county under the jurisdiction of Hefei City, Anhui Province, and is located in the south part of Hefei. Lujiang is one of the three sub-centers of Hefei as well as an important manufacturing and service base in Hefei. Lujiang has jurisdiction over 3 streets and 17 towns, with a total area of 3,343.7 square kilometers. Besides, it also owns one provincial economic development zone and one living community. At end-2022, Lujiang had a resident population of 0.9 million, with an urbanization rate of 55.8%.

Lujiang achieved rapid economic growth in 2021 and 2022, after a significant economic slowdown in 2020. Lujiang's GDP reached RMB60.1 billion in 2022, representing a year-over-year (y-o-y) growth rate of 7.8%, which was ranked the 1st among 59 counties and county-level cities of Anhui. Lujiang's economic growth was mainly fueled by the secondary and tertiary industries in the past few years, which accounted for 38.9% and 50.1% of GDP

in 2022, respectively. GDP per capita of Lujiang was RMB 67,579 in 2022, lower than that of Hefei (RMB 125,798) and Anhui (RMB 73,603).

Lujiang's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	48.6	54.9	60.1
-Primary industry (%)	12.0	11.5	11.0
-Secondary industry (%)	33.8	36.1	38.9
-Tertiary industry (%)	54.2	52.3	50.1
GDP growth rate (%)	2.7	6.0	7.8
Fixed asset investment	29.0	27.2	28.4
Fixed asset investment growth rate (%)	8.7	-5.9	4.2
Population (million)	0.9	0.9	0.9

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Lujiang

The aggregate fiscal revenue of the Lujiang government was mainly derived from the budgetary revenue and transfer payment. The budgetary revenue of the Lujiang government continued to grow in the past three years, and reached RMB2.6 billion in 2022, representing a y-o-y increase of 10.7%. The tax revenue accounted for around 82% of the budgetary revenue in 2020-2022. On the other hand, the Lujiang government highly relied on transfer payments from higher government, which reached RMB5.8 billion in 2022, accounting for 62.2% of aggregate fiscal revenue.

The outstanding debt of the Lujiang government maintained a steady growth in the past few years. At end-2022, the Lujiang government's outstanding debt was RMB12.5 billion, including RMB3.4 billion of general obligations and RMB9.1 billion of special debt. The debt ratio (total outstanding debt/ aggregate fiscal revenue) climbed from 83.5% in 2020 to 132.6% in 2022, mainly due to the increase in special debt.

Lujiang's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	2.1	2.4	2.6
Budgetary revenue growth rate (%)	0.9	15.1	10.7
Tax revenue	1.7	1.9	2.2
Tax revenue (% of budgetary revenue)	82.0	82.2	82.2
Government fund income	1.4	1.0	0.9
Transfer payment	7.2	4.5	5.8
Aggregate revenue	10.6	7.9	9.4
Budgetary expenditure	8.2	7.5	8.1
Budget deficit ¹ (%)	-298.8	-216.3	-209.1

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

LCRRI was established in July 2018 by the Lujiang FB with the approval and authorization of the Lujiang government. The company's registered capital and paid-in capital were both RMB442.0 million at end-June 2023. The Lujiang FB is the sole shareholder of the company.

Strategic Importance and Government Linkage

Strategic Importance of LCRRRI to Lujiang

LCRRRI, as one of the major LIDCs in Lujiang, is primarily responsible for the land development and consolidation, management of tourist attractions, and development and operation of leisure agriculture and rural tourism resources in the region. It owns strong regional franchised advantages and plays an important role in serving the social and economic development to promote the rural revitalization in Lujiang.

Strong Linkage with the Local Government

LCRRRI's linkage with the local government is strong as the Lujiang government holds the full ownership of LCRRRI through the Lujiang FB, and it is the ultimate controlling shareholder of the company. The Lujiang government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Lujiang government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Government Support

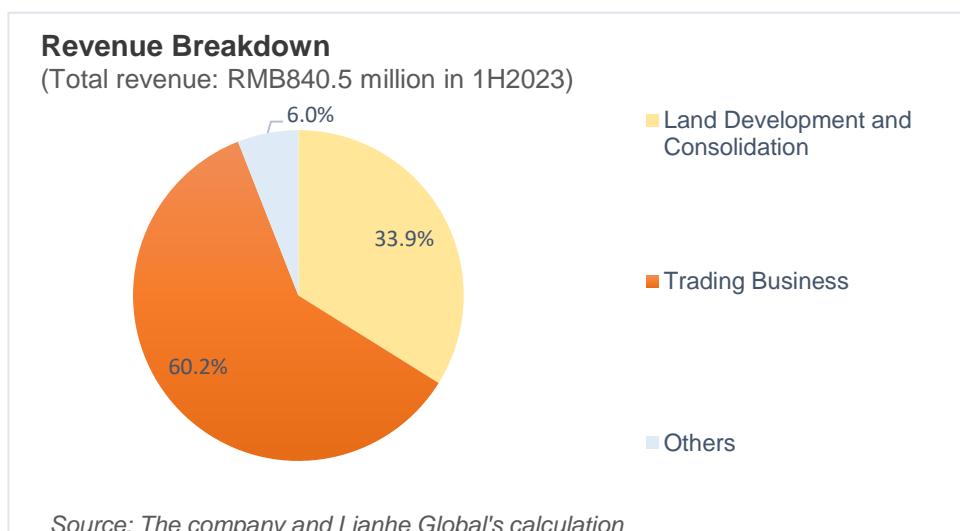
LCRRRI continued to receive financial subsidies and asset/capital injections from the Lujiang government to support its business operations; we believe the government support will remain intact given the company's strategic role in rural revitalization. LCRRRI received subsidies of RMB1.8 million, RMB2.0 million and RMB3.9 million in 2020, 2021 and 2022, respectively. In addition, the asset and capital injections in the form of land to be developed and land use rights, etc., reached about RMB3.6 billion, RMB4.9 billion and RMB2.1 billion in 2020, 2021 and 2022, respectively.

Business Profile

The Main Entity Promoting the Rural Revitalization of Lujiang County

LCRRRI is a major entity serving the social and economic development of Lujiang County, aiming to promote the rural revitalization in this region. LCRRRI is mainly responsible for the land development and consolidation, water conservancy-related consulting services, management of tourist attractions, and development and operation of leisure agriculture and rural tourism resources. It also engages in trading business and property management.

LCRRI's total revenue showed strong growth to RMB1,983.6 million in 2022 from RMB941.8 million in 2020, mainly due to the rapid increase in trade income. Gross profit margins stayed at 20%-30% in 2020-2022, reflecting the high margins in land development and consolidation while the margins of trading business were low at below 5%. LCRRI reported total revenue of RMB840.5 million in 1H2023, with trading business accounting the biggest share of 60.2%, followed by land development and consolidation of 33.9%.



Land Development and Consolidation

LCRRI is responsible for the land development and consolidation business in Lujiang, with strong regional advantage. Its land development business model is a process of sorting out, investing in and developing land before it is sold. Entrusted by the Lujiang government, the company makes unified arrangements for land acquisition compensation, demolition and resettlement, land leveling, and construction of municipal infrastructure and social public facilities in accordance with the urban functional planning and municipal infrastructure requirements.

Trading Business

The main products of LCRRI's trading business are commodities, including sales of chemical raw materials and construction materials. The company purchases goods from raw material suppliers according to the production and demand of downstream customers, and sells the goods to downstream customers to earn the price difference. LCRRI does not bear the cost of cargo transportation, and the settlement cycle is generally 1-3 months.

Other Businesses

LCRRI's other businesses include property management, vehicle rental, etc. These segments account for a relatively small proportion of the company's total revenue and mainly serve to supplement the main businesses for revenue diversification.

Financial Profile

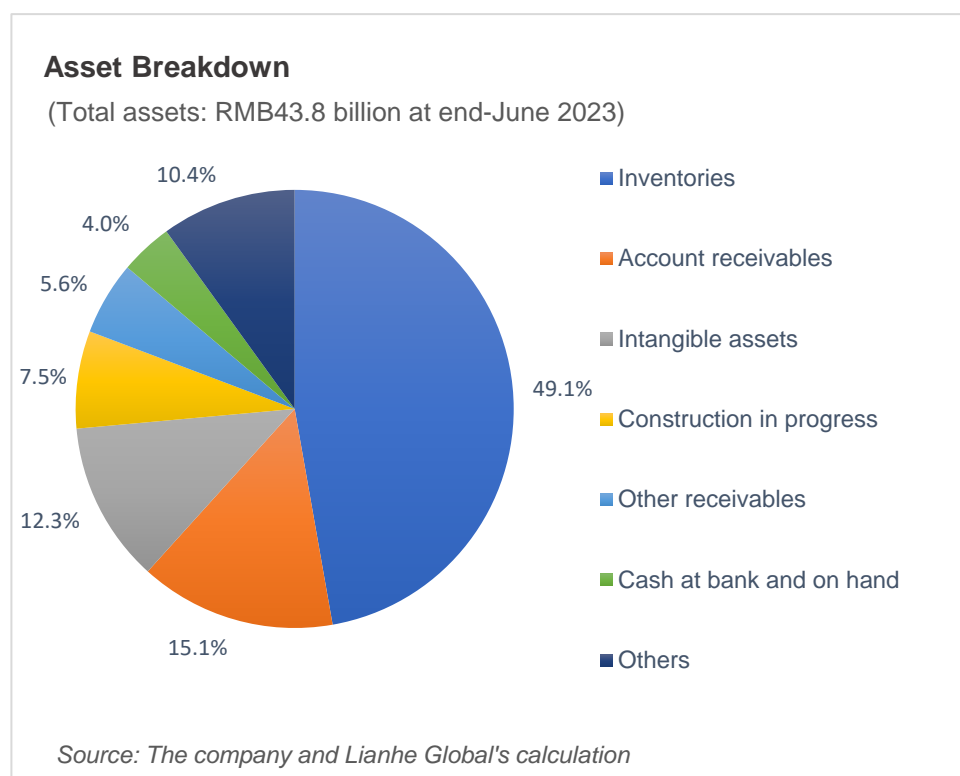
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality

(RMB million)	2020	2021	2022	June 2023
Total Asset	22,446	32,653	40,881	43,797
Equity	18,081	24,766	27,202	27,906
Debt	3,679	5,583	7,151	8,477
Debt / (Debt + Equity) (%)	16.9	18.4	20.8	23.3
LT Debts	2,432	4,312	5,404	6,437
LT Debt / (LT Debt + Equity) (%)	11.9	14.8	16.6	18.7

Source: Company information and Lianhe Global's calculations

LCRRI's total assets showed a strong growth in the past few years, with a growth rate of 45.5% and 25.2% in 2021 and 2022, respectively, and reached RMB43.8 billion at end-1H2023. The increase of LCRRI's total assets was largely due to the increase in inventories, account receivables and intangible assets and overall asset liquidity was weak. Inventories primarily comprised of land to be developed, raw materials, and development cost, and accounted for almost 50% of LCRRI's total assets at end-1H2023. Accountant receivables were mainly related to the land development and consolidation business, while the intangible assets were mostly land use rights at end-1H2023.



LCRRI's financial leverage (total liabilities to assets) increased notably to 36.3% at end-1H2023, from 19.5% at end-2020, mainly due to the increasing debt borrowings and account payables for business expansion, although the strong growth in LCRRI's total equity on strong asset injections from the Lujiang government partially mitigated the impact. LCRRI's total adjusted debt increased to RMB8.5 billion at end-1H2023 from RMB3.7 billion at end-2020, with short-term debt and long-term debt accounting for 24.1% and 75.9% of the end-1H2023 total debt, respectively. We expect LCRRI to continue to rely on external financing to support its capital expenditures, while the management expects its leverage at below 60% in the next 1-2 years.



Debt Servicing Capability

The liquidity of LCRRRI was weak. At end-June 2023, LCRRRI had unrestricted cash balance and unused credit facilities of RMB1.8 billion and RMB1.9 billion, respectively, compared with its debt due within one year of RMB2.0 billion. In addition, LCRRRI's financing channel has concentrated in bank loans. Obtaining additional funding channels or government support would be needed for maintaining its liquidity.

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrade or downgrade or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relies on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.