

Zhejiang Qiantang River Investment Development Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	25 September 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhejiang Qiantang River Investment Development Co., Ltd. (“ZQRID” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Haining (“the Haining government”) would provide strong support to ZQRID if needed. This mainly considers the Haining government indirectly owns majority shares of ZQRID, ZQRID’s strategic importance as the sole local investment and development company (“LIDC”) responsible for infrastructure construction, land consolidation, as well as development and operation of industrial parks in Haining Economic Development Zone (“Haining EDZ”) and the linkage between the Haining government and ZQRID, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Haining government may face significant negative impact on its reputation and financing activities if ZQRID encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Haining government indirectly holds majority shares of ZQRID. The Haining government has strong control over the company through its shareholder, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: ZQRID is the sole LIDC responsible for infrastructure construction and land consolidation in Haining EDZ. The company also develops and operates industrial parks in Haining EDZ, aiming at promoting the local industrial development. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The local government supplied ongoing support to ZQRID. The local government injected cash capital of RMB2.4 billion through its shareholder in 2022. In addition, ZQRID received operational subsidies of RMB189 million, 177 million, 254 million and 158 million in 2020, 2021, 2022 and the first half of 2023, respectively, from the local government to support ZQRID’s activities in relation to providing public goods. We expect ZQRID to receive ongoing support from the local government in the coming years considering its strategic importance in Haining.

Key Figures of Haining and ZQRID (RMB billion)

Haining	2021	2022
GDP	119.8	124.7
GDP growth rate (%)	7.0	0.7
Budgetary revenue	11.4	9.5
Government fund	18.8	19.7
Transfer payment	2.2	2.9
Budgetary expenditure	11.1	12.2
ZQRID	2021	2022
Asset	24.4	27.9
Equity	7.5	10.3
Revenue	0.69	0.98

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

Analysts

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Applicable Criteria

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

Economy and Fiscal Condition of Haining: Haining is a county-level city under the jurisdiction of Zhejiang Province and managed by Jiaxing City on behalf of Zhejiang Province. Haining's GDP reached RMB124.7 billion in 2022, which was ranked 1st among 7 districts and counties under the jurisdiction of Jiaxing. It was ranked 22nd among China's top 100 counties in comprehensive strength in 2022. However, Haining's GDP growth rate fluctuated in the past three year, which was 2.1%, 7.0% and 0.7% in 2020, 2021 and 2022, respectively, owing to Covid's disruption.

Haining EDZ has been serving as an important growth driver for the city's economic and industrial development since its establishment in August 1992. In recent years, Haining EDZ focused on the development of three leading industries (fashion, equipment manufacturing and IT), and cultivated several emerging industries such as pan-semiconductor, high-end equipment and aerospace.

The Haining government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. Due to the large-scale value-added tax refund policy, the Haining government's budgetary revenue decreased to RMB9.5 billion in 2022 from RMB11.4 billion in 2021. On the other hand, Haining's government fund income maintained a steady growth in the past three years, reaching RMB19.7 billion in 2022 and accounting for 57.8% of aggregate revenue.

The outstanding debt of the Haining government continued to grow due the new issuance of special debts to support the projects development, mainly infrastructures and railway projects. At end-2022, the Haining government's outstanding debt increased to RMB23.0 billion from RMB17.3 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was lifted to 71.4% at end-2022 from 58.3% at end-2021.

ZQRID's Financial and Liquidity Position: ZQRID's asset size expanded rapidly in the past few years due to the company active participation in Haining EDZ's development. Its total assets almost doubled to RMB30,932 million at end-June 2023 from RMB15,577 million at end-2020. The company relied heavily on borrowings to fund its expansion, with total debt soared by 131.3% to RMB17,658 million from RMB7,634 million over the same period. Thanks to the cash capital injection in 2022, its financial leverage, as measured by total debt/capitalization, stayed at c. 60% level.

ZQRID's liquidity was moderate tight. At end-June 2023, the company had cash of RMB2,009 million (including restricted cash of RMB60 million), compared with its debt due within one year of RMB3,456. Yet ZQRID has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. At end-June 2023, the company had unused credit lines of RMB4.4 billion.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Haining

Haining is a county-level city under the jurisdiction of Zhejiang Province and managed by Jiaxing City on behalf of Zhejiang Province. Haining is located in the north part of Zhejiang Province, bordering Qiantang River to the south and Hangzhou City to the west. With a total area of 863 square kilometers (including the water area of Qiantang River), Haining has jurisdiction over 4 streets, 8 towns and 3 provincial economic development zones. At end-2022, Haining had a resident population of 1.1 million, with an urbanization rate of 70.5%.

Owing to Covid's disruption, Haining's GDP growth rate fluctuated in the past three year, which was 2.1%, 7.0% and 0.7% in 2020, 2021 and 2022, respectively. Haining's GDP reached RMB124.7 billion in 2022, which was ranked 1st among 7 districts and counties under the jurisdiction of Jiaxing. Haining was also ranked 16th among China's top 100 counties in comprehensive strength in 2023.

Haining EDZ was established in August 1992 and was approved as a provincial-level development zone in 1997. Haining EDZ has been serving as an important growth driver for the city's economic and industrial development. In recent years, Haining EDZ focused on the development of three leading industries (fashion, equipment manufacturing and IT), and cultivated several emerging industries such as pan-semiconductor, high-end equipment and aerospace.

Haining's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	105.5	119.8	124.7
-Primary industry (%)	1.8	1.6	1.7
-Secondary industry (%)	55.8	57.8	58.1
-Tertiary industry (%)	42.4	40.5	40.2
GDP growth rate (%)	2.1	7.0	0.7
Fixed asset investment	51.6	52.7	56.9
Fixed asset investment growth rate (%)	7.6	2.2	7.8
Population (million)	1.1	1.1	1.1

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Haining

The Haining government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. Due to the large-scale value-added tax refund policy, the Haining government's budgetary revenue decreased to RMB9.5 billion in 2022 from RMB11.4 billion in 2021. Meanwhile, the Haining government's budgetary expenditure increased to RMB12.2 billion in 2022 from RMB11.1 billion in 2021. Therefore, the Haining government flipped into a budget deficit of 28.6% in 2022 from a budget surplus of 2.6% recorded in 2021. On the other hand, Haining's government fund income maintained a steady growth in the past three years, reaching RMB19.7 billion in 2022 and accounting for 57.8% of aggregate revenue.

The outstanding debt of the Haining government continued to grow due the new issuance of special debts to support the projects development, mainly infrastructures and railway projects. At end-2022, the Haining government's outstanding debt increased to RMB23.0 billion from RMB17.3 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was lifted to 71.4% at end-2022 from 58.3% at end-2021.

Haining's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	10.1	11.4	9.5
Budgetary revenue growth rate (%)	4.0	13.3	-4.7*
Tax revenue	9.5	10.7	8.5
Tax revenue (% of budgetary revenue)	93.7	93.8	89.6
Government fund income	17.0	18.8	19.7
Transfer payment	2.4	2.2	2.9
Aggregate revenue	29.6	32.6	32.3
Budgetary expenditure	10.5	11.1	12.2
Budget deficit ¹ (%)	-4.3	2.6	-28.6

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

*Note: Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

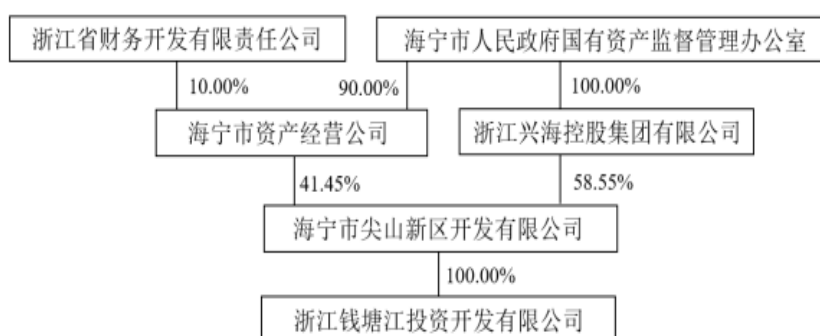
Ownership Structure

Full Government Ownership

ZQRID, formerly known as Haining Haichang Investment Development Co., Ltd., was established in December 2000 with the approval of the Haining government and initial registered capital of RMB58 million.

After an array of capital injections and equity transfers, the company now is solely owned by Haining Jianshan New District Development Co., Ltd. ("HJND"), another LIDC handles the development of Jianshan New District in Haining. Yet ZQRID and is ultimately controlled by the State-owned Assets Supervision and Administration Office of Haining. At end-2022, the company's registered capital and paid-in capital were both RMB825 million.

ZQRIDs' Ownership Structure at end-2022



Source: ZQRID

Strategic Importance and Government Linkage

Strategic Importance of ZQRID to Haining

ZQRID is the sole LIDC responsible for infrastructure construction and land consolidation in Haining EDZ. The company also develops and operates industrial parks in Haining EDZ, aiming at promoting the local industrial development. Its business operations and strategic planning have been aligned with the local government's economic and social development policies.

Strong Linkage with the Local Government

The Haining government holds majority shares of ZQRID through HJND. The Haining government has strong control over the company through its shareholder, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

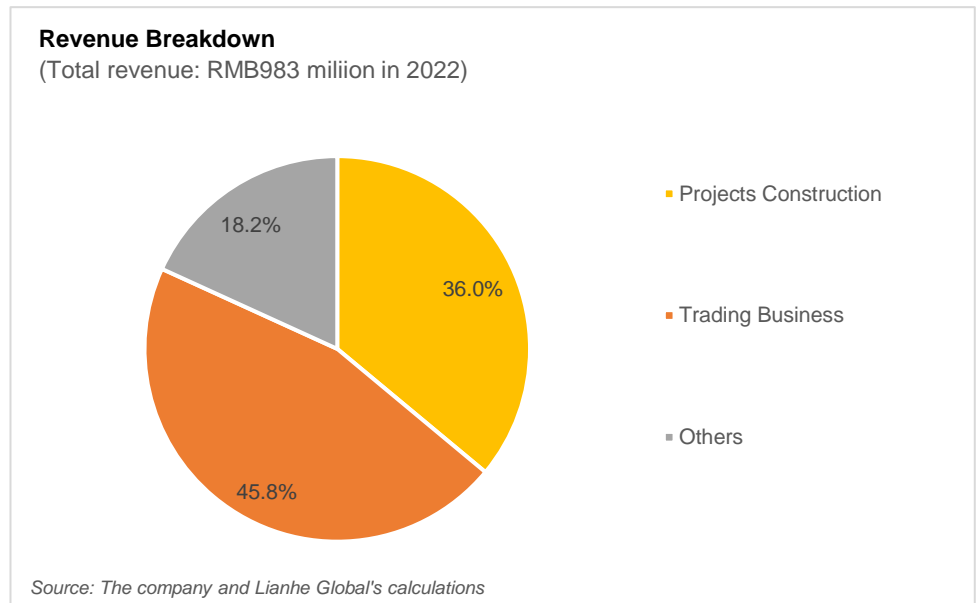
Ongoing Government Support

The local government provided ongoing support to ZQRID. The local government injected cash capital of RMB2.4 billion through its shareholder in 2022. In addition, ZQRID received operational subsidies of RMB189 million, 177 million, 254 million and 158 million in 2020, 2021, 2022 and the first half of 2023, respectively, from the local government to support ZQRID’s activities in relation to providing public goods. We expect ZQRID to receive ongoing support from the local government in the coming years considering its strategic importance in Haining.

Business Profile

The Sole Entity Responsible for Infrastructure Construction and Land Development within Haining EDZ

ZQRID is the sole LIDC responsible for infrastructure construction, land consolidation, as well as development and operation of industrial parks in Haining EDZ with a strong regional franchise. The total revenue of ZQRID was RMB594 million, RMB694 million and RMB983 million in 2020, 2021 and 2022, respectively, showing a steady growth trend. The overall gross profit margin stayed stable at 7%-9% in the past three years.



Projects Construction

ZQRID is the sole LIDC conducting infrastructure, public facility and land consolidation projects in Haining EDZ. The project scope includes roads and bridges, pipe networks, landscaping, river improvements as well as schools and hospital.

The company undertakes projects under agent construction mode. According to agent construction agreements signed with the local government agencies and local companies, ZQRID handles funds raising, planning and constructing for entrusted projects. Moreover, ZQRID is accountable for the quality and progress of construction and will examine projects together with entrusting parties after completion. The company settles construction costs plus a 9% of management fees with the entrusting parties after examination. The revenue generated from project construction business was RMB561 million, RMB351 million and RMB354 million in 2020, 2021 and 2022, respectively. The gross profit margin was stable at 7.0% in the past three years.

In addition, ZQRID develops and operates industrial parks through self-management model. The company mobilizes its owned funds and external financings to build industrial parks in Haining EDZ, attracting high-end equipment, high-technology and high-end aerospace industries to settle in Haining EDZ. The company realizing increasing leasing incomes of RMB12.6 million, RMB45.6 million and RMB76.0 million in 2020, 2021 and 2022, respectively, as industrial parks completed and rented out gradually.

Trading Business

ZQRID also engages in the trading of metal and non-metal materials, furs, software devices, clothing, etc. with “demand-driven” model. The company sources basing on the orders of clients, mainly local SMEs, and ships the goods to designated spots. To support the development of local SMEs, ZQRID grants credit period (generally no more than 360 days) to buyers. Yet this exposes the company to counter party credit risks. The revenue from the trade business was RMB4.3 million, RMB165.1 million and RMB449.9 million in 2020, 2021 and 2022, respectively, showing a rapid growth trend. However, the gross profit margin of this segment was below 1%.

Others

ZQRID's other revenue was mainly derived from property leasing, cemetery and funeral services, etc., diversifying the company's revenue sources. Though the revenues from each of these businesses was relatively small, the aggregate amount expanded rapidly to RMB179 million in 2022 from RMB28 million in 2020, with a favourable margin of 30.8% in 2022.

Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality					
(RMB million)	2020	2021	2022	2023.6	2023.6* (Adjusted)
Total Asset	15,577	24,425	27,921	30,931	30,931
Equity	5,701	7,491	10,252	11,303	10,303
Debt	8,182	12,866	16,500	18,409	19,409
Debt / (Debt + Equity) (%)	58.9	63.2	61.7	62.0	65.3

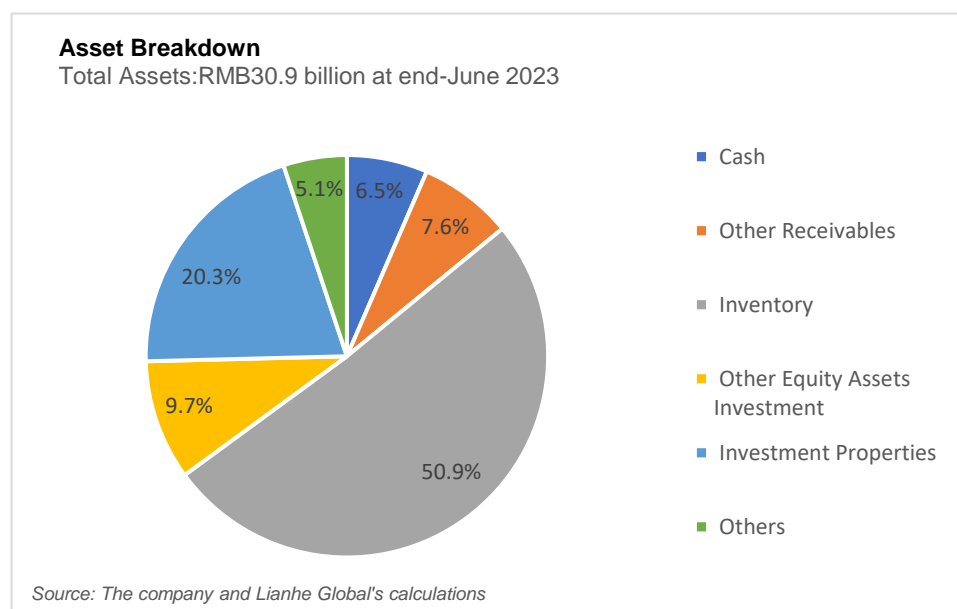
LT Debts	7,056	11,404	13,565	14,954	15,954
LT Debt / (LT Debt + Equity) (%)	55.3	60.4	57.0	57.0	60.8

**Note: Adjusted numbers and ratios reflect the equity investment with debt characteristic reallocating to long-term debts and total debts from equity*

Source: ZQRID and Lianhe Global's calculations

ZQRID's asset size expanded rapidly in the past few years due to the company active participation in Haining EDZ's development. Its total assets almost doubled to RMB30,932 million at end-June 2023 from RMB15,577 million at end-2020. The company relied heavily on borrowings to fund its expansion, with total debt soared by 131.3% to RMB17,658 million from RMB7,634 million over the same period.

ZQRID's financial leverage stayed largely stable between c. 59% and 63% over the same period as the company received capital injections of RMB2.4 billion and RMB1 billion in 2022 and the first half of 2022, from the local government and ICBC Financial Assets Investment Co., Ltd., an investment company, respectively. Yet the latter was embedded with debt characteristic (e.g., fixed term and return). After adjusting it to debts from equity, ZQRID's financial leverage was 65.3% at end-June 2023.



ZQRID's asset was not well equipped with liquidity. At end-June 2023, inventory and investment properties contributed majority of the company's total asset. The former mainly consisted of land use rights and construction costs from projects development and land consolidation while the latter were industrial parks for leasing. Both have a relatively long payback period. For agent construction projects, they usually take three to five years to construct plus two to three years for cash collection. For self-management projects, the leasing income (2022: RMB76 million) was low as compared to the stock of investment properties (end-June 2023: 6.3 billion).

In addition, ZQRID had four self-management industrial parks project under construction at end-2022, with total planned investment of RMB12.9 billion, most of which are scheduled to be invested in next two to three years, incurring high demand of capital expenditure to the company. The return of self-management industrial parks is highly subject to their leasing and operation conditions after completion.

ZQRID's other receivables were mainly due from other government agencies and SOEs in Haining. It also invested in some semiconductor and auto companies.

Debt Servicing Capability

ZQRID's liquidity was moderate tight. At end-June 2023, the company had cash of RMB2,009 million (including restricted cash of RMB60 million), compared with its debt due within one year of RMB3,456 million. Yet ZQRID has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. At end-June 2023, the company had unused credit lines of RMB4.4 billion.



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