

Zhangzhou Jiulongjiang Group Co., Ltd.

Surveillance Report

Summary

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

Key Figures of Zhangzhou and Jiulongjiang 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
Jiulongjiang Group	2022	2023.3
Assets	118.4	122.6
Equity	39.0	37.7
Revenue	58.5	14.8

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

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Applicable Criteria

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

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BBB+' global scale Long-term Issuer Credit Rating of Zhangzhou Jiulongjiang Group Co., Ltd. ("Jiulongjiang Group" or "the company"); Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Zhangzhou City ("Zhangzhou government") would provide strong support to Jiulongjiang Group if needed, in light of its 90% ownership of Jiulongjiang Group, Jiulongjiang Group's strategic position as an important state-owned capital investment and operation entity of Zhangzhou and the strong linkage between the Zhangzhou government and Jiulongjiang 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 Jiulongjiang Group encounter any operational or financial difficulties.

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

Rating Rationale

Government's Ownership and Supervision: The Zhangzhou government has 90% ownership of Jiulongjiang 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 Jiulongjiang Group, including control of the board of directors, senior management appointments, major strategic, investment and financing planning.

Strategic Importance and Strategic Alignment: Jiulongjiang Group, as the largest local investment and development company ("LIDC") in Zhangzhou, is the major stated-owned capital investment and operation entity that is mainly responsible for industrial projects investment and infrastructure construction in Gulei Port Economic Development Zone ("Gulei Port EDZ") and Yuanshan High-Tech Zone, to support the local economic and industrial development. The company's business operation and development have been aligned with the government's economic and social policies. In the future planning of the Zhangzhou government, Jiulongjiang Group will continue to be in charge of state-owned capital investment and operation to support the local economy.

Ongoing Government Support: Jiulongjiang Group has received supports from the Zhangzhou government for its business operation, mainly including capital injections, government subsidies, financial support, and it also benefits from preferential tax and/or tax exemption policies in encouraged high-tech industries. Jiulongjiang Group has received solid and stable financial subsidies from the local government, including project-related subsidies in Gulei Port EDZ and interest subsidies from the municipal financial pooling fund. We believe Jiulongjiang Group will likely receive government support in the form of operational and/or financial subsidies in the future.

Jiulongjiang Group's Financial and Liquidity Position: Jiulongjiang Group's total assets showed a continuous growth trend in the past few years, with the growth rates of 17.5% and 3.6% in 2022 and at end-March 2023, respectively. Jiulongjiang Group's financial leverage (total liabilities to assets) and total debt capitalization were 69.2% and 67.4% at end-March 2023, respectively, representing a stable trend. Jiulongjiang Group mainly relies on external financing for capital expenditure. The total adjusted debt of Jiulongjiang Group increased by c. 32.3% at end-March 2023 from end-2021, of which the short-term and long-term debt accounted for 56.3% and 43.7% of its total debt, respectively. The liquidity of Jiulongjiang Group was sufficient. At end-March 2023, Jiulongjiang Group had total cash of c. RMB14.2 billion and a total credit line of RMB67.7 billion, of which approximately RMB37.6 billion was available, compared with its debt to be due within one year of c. RMB43.8 billion. Besides, Jiulongjiang 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 size was ranked 4th out of all cities of Fujian province 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 Jiulongjiang 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 Jiulongjiang Group, or (3) there is a downgrade in our internal credit assessment on the Zhangzhou government.

We would consider upgrading Jiulongjiang 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

Jiulongjiang Group was established in December 1992 with an initial registered capital of RMB47.25 million under the approval of the Zhangzhou government. After several capital injections and equity transfers, the registered capital and paid in capital of Jiulongjiang Group both became c. RMB4.0 billion at end-March 2023. The Zhangzhou government, as the actual controller of the company, has 90% ownership of Jiulongjiang Group via the Zhangzhou SASAC. The remaining 10% stake is held by Fujian Provincial Department of Finance.

Jiulongjiang Group is a diversified state-owned entity that primarily engages in pharmaceutical manufacturing, machinery manufacturing, trading and investment in Zhangzhou. It also engages in property development, industrial park construction, power distribution, and other businesses to a lesser degree to facilitates the economic development in Zhangzhou.

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