

# Guangyuan Lizhou Development Holding (Group) Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	28 September 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Guangyuan Lizhou Development Holding (Group) Co., Ltd. (“GLDH” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Lizhou District (“the Lizhou district government”) would provide strong support to GLDH if needed. This mainly considers the Lizhou district government’s full ownership of GLDH, GLDH’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure development in Lizhou District, and the linkage between the Lizhou district government and GLDH, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Lizhou district government may face significant negative impact on its reputation and financing activities if GLDH encounters any operational and financial difficulties.

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

### Rating Rationale

**Government’s Ownership and Supervision:** The Lizhou district government holds 100% shares of GLDH through Guangyuan Lizhou District State-owned Assets Supervision and Management and Financial Works Bureau (“Lizhou District SAFB”). The Lizhou district government has strong control over the company, including the appointment of senior management and supervision of GLDH’s 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:** GLDH is a major development platform in Lizhou District. The company develop important urban infrastructure, resettlement houses, urban renovation, land consolidation and road work projects entrusted by the Lizhou district government. 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 provided ongoing support to GLDH. The company received assets, include mining rights, local franchises for parking lots and billboards, etc., valued at RMB4,840 million from the local government in 2022. In addition, the local government supplied operational subsidies c. 60 million annually between 2020 and 2022 to support GLDH’s activities in relation to providing public goods. We expect GLDH to receive ongoing support from the local government in the coming years considering its strategic importance in Lizhou.

### Key Figures of Lizhou District and GLDH (RMB billion)

Lizhou District	2021	2022
GDP	37.9	38.5
GDP growth rate (%)	9.1	-0.6
Budgetary revenue	0.9	0.9
Government fund	0.4	0.9
Transfer payment	2.1	2.8
Budgetary expenditure	2.8	3.2
GLDH	2021	2022
Asset	9.0	16.0
Equity	5.0	9.9
Revenue	0.3	0.5

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

### Analysts

Sigmund Jiang, CFA, CESGA  
 (852) 3462 9587  
[sigmund.jiang@lhratingsglobal.com](mailto:sigmund.jiang@lhratingsglobal.com)

Roy Luo, FRM, CESGA  
 (852) 3462 9582  
[roy.luo@lhratingsglobal.com](mailto:roy.luo@lhratingsglobal.com)

### Applicable Criteria

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

**Economy and Fiscal Condition of Lizhou District:** Lizhou District is in the heart of Sichuan's Guangyuan City ("Guangyuan"). It serves as the political, economic, and cultural centre of Guangyuan and is where the People's Government of Guangyuan Municipal locates. In 2022, the total GDP of Lizhou District was RMB38.47 billion, ranking first among 4 counties and 3 districts under Guangyuan's jurisdiction. However, its economic growth has seen significant fluctuations over the past three years, with a slight recession in 2022 owing to Covid's impact. In addition, Lizhou District's fixed asset investment dropped significantly in 2022.

The Lizhou district government's budgetary revenue was small, amounting to RMB852 million in 2022, while its fiscal self-sufficiency was weak, with a high fiscal deficit rate of -271.8%. The Lizhou district government heavily relied on transfer payments from higher-level governments, which accounted for over 60% of aggregate revenue in the past three years.

The outstanding debt of The Lizhou district government has been growing continuously over the past three years, mainly due to the new issuance of special debts to support infrastructure and urban renewal projects. At end-2022, the government debt balance was RMB4.39 billion, up from RMB2.75 billion at end-2020. The government debt ratio (outstanding debt/total aggregate revenue) remained high, which was 95.8% at end-2022.

**GLDH's Financial and Liquidity Position:** GLDH's total assets doubled to RMB16.62 billion at end-March 2023 from RMB8.28 billion at end-2020, mainly supported by the asset injections from the Lizhou district government in 2022, enhancing the company's equity base to RMB9.91 billion from RMB4.90 billion. The company's debts also increased significantly to RMB2.83 billion from RMB1.84 billion over the same period. Due to the larger increase in the equity, the company's financial leverage has maintained at a relatively low level in the past few years. The total debt/capitalization of the company decreased to 22.2% at end-March 2023 from 27.3% at end-2020.

GLDH's liquidity was moderate. At end-March 2023, the company had cash of RMB1.19 billion (including restricted cash of RMB454 million). At the same time, the company had debt due within one year of RMB1.84 billion. GLDH mainly relies on bank borrowings to finance its debt repayments and business operations. We expect the GLDH to be able to roll over most of its short-term bank borrowings (end-March 2023: RMB232 million). At the same time, the company also had unused credit lines of RMB1.16 billion at end-March 2023.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Lizhou District

Lizhou District is in the heart of Sichuan's Guangyuan. It serves as the political, economic, and cultural centre of Guangyuan and is where the People's Government of Guangyuan Municipal locates. Lizhou District is also known for being the birthplace of Wu Zetian, the only female emperor in Chinese history, boasting a city history of over two millennia. Covering an area of 1,538.53 square kilometres, Lizhou District had a residential population of 625,000 at end-2022, with an urbanization rate of 76.8%.

In 2022, the total GDP of Lizhou District was RMB38.47 billion, ranking first among 4 counties and 3 districts under Guangyuan's jurisdiction. However, its economic growth has seen significant fluctuations over the past three years, with a slight recession in 2022 owing to Covid's impact. In addition, Lizhou District's fixed asset investment dropped significantly in 2022.

#### Lizhou District's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	33.9	37.9	38.5
-Primary industry (%)	4.8	4.6	4.9
-Secondary industry (%)	44.5	47.0	46.0
-Tertiary industry (%)	50.7	48.4	49.1
GDP growth rate (%)	4.1	9.1	-0.6
Fixed asset investment growth rate (%)	4.4	14.5	-6.0
Population (million)	0.6	0.6	0.6

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of the Lizhou district government

The Lizhou district government's budgetary revenue was small, amounting to RMB852 million in 2022. Its income quality was weak. Tax revenue's contribution decline to 46.4% in 2022 from 65.8% in 2020. The Lizhou district government's fiscal self-sufficiency was weak, with a high fiscal deficit rate of -271.8% in 2022. The Lizhou district government heavily relied on transfer payments from higher-level governments, which accounted for over 60% of aggregate revenue in the past three years. Given the significant fiscal expenditure pressure of the Lizhou District government, we expect it to continue relying heavily on transfer payment revenue in the coming years.

The outstanding debt of The Lizhou district government has been growing continuously over the past three years, mainly due to the new issuance of special debts to support infrastructure and urban renewal projects. At end-2022, the government debt balance was RMB4.39 billion, up from RMB2.75 billion at end-2020. The government debt ratio (outstanding debt/total aggregate revenue) remained high, which was 95.8% at end-2022.

### Lizhou District's Fiscal Conditions

(RMB billion)	2020	2021	2022
Budgetary revenue	0.8	0.9	0.9
Budgetary revenue growth rate (%)	5.2	15.0	3.7*
Tax revenue	0.5	0.6	0.4
Tax revenue (% of budgetary revenue)	65.8	62.2	46.4
Government fund income	0.7	0.4	0.9
Transfer payment	2.5	2.1	2.8
<b>Aggregate revenue</b>	<b>3.9</b>	<b>3.4</b>	<b>4.6</b>
Budgetary expenditure	3.2	2.8	3.2
Budget deficit <sup>1</sup> (%)	-308.0	-215.5	-271.8

<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%

\*Notes: excluding the effect of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Full Government Ownership

GLDH, formerly known as Guangyuan Zongai Property Management Co., Ltd. was established in 2019, funded by Guangyuan Lizhou Urban and Rural Development Group Co., Ltd. ("GLUR"), an important affordable housing and infrastructure construction entity in Lizhou District. After an array of equity transfers, GLDH is 100% owned by Lizhou District SAFB.

GLUR and its subsidiaries' shares were transferred to GLDH under the local government's instructions in January 2023, making GLDH the largest LIDC in terms of asset size in Lizhou District. At end-March 2023, the company's registered capital was enlarged to RMB600 million, of which RMB0.3 million was paid-in.

## Strategic Importance and Government Linkage

### Strategic Importance of GLDH to Lizhou District

GLDH is a major development entity in Lizhou District. The company develops important urban infrastructure, resettlement houses, urban renovation, land consolidation and road work projects entrusted by the Lizhou district government. 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 Lizhou district government holds 100% shares of GLDH through Lizhou District SAFB. The Lizhou district government has strong control over the company, 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

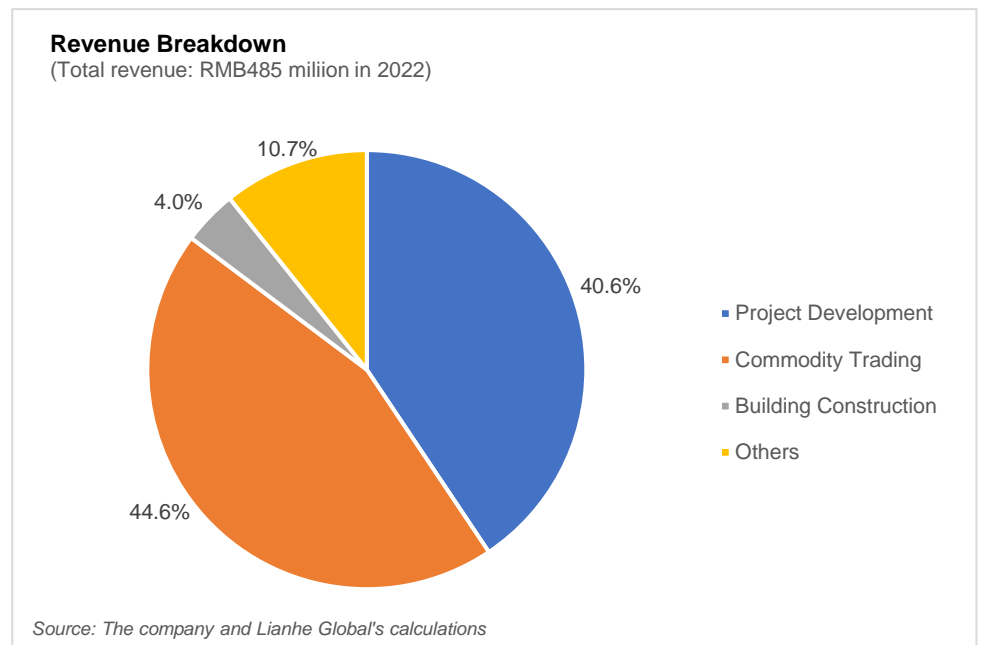
The local government provided ongoing support to GLDH. The company received assets, include mining rights, local franchises for parking lots and billboards, etc., valued at RMB4,840 million from the local government in 2022. In addition, the local government

supplied operational subsidies c. 60 million annually between 2020 and 2022 to support GLDH's activities in relation to providing public goods. We expect GLDH to receive ongoing support from the local government in the coming years considering its strategic importance in Lizhou.

## Business Profile

### An Important Infrastructure Development Entity in Lizhou District

GLDH is an important LIDC that is responsible for infrastructure development in Lizhou District with a strong regional exclusivity. The company also spans a wide range of operations, including building construction, human resource services and property management and leasing. The operating income of Lizhou Development showed a steady growth trend, recording RMB 246 million, RMB332 million, and RMB485 million in 2020, 2021, and 2022, respectively.



### Project Development and Building Construction

GLDH is a major project development entity in Lizhou District. The project scope includes urban infrastructure, resettlement houses, urban renovation, land consolidation and road works entrusted by the local government agencies. The company is responsible for the project's design, submitting and obtaining approval, site management and completion acceptance. The funds for the projects are mainly raised by the company itself, with a portion also contributed by the local government. GLDH charges entrusting party construction costs plus management fee annually based on the project's progress. The company has a strong project pipeline supporting the segment's development in the coming years. However, GLDH faces uncertainties in cash collection, which is subject to the local government's fiscal conditions.

In addition, GLDH participate in land increase-decrease linkage business. The company carries land improvement and reclamation projects under the local government's plan and sell released development quotas through land increase-decrease linkage exchange

platforms. Yet the cash collection period of this business is long as well due to the potential project delays and fluctuation of land market.

GLDH's subsidiaries, Sichuan Chengfa Construction Co., Ltd. and Guangyuan Lichen Construction Co., Ltd. possesses building construction qualifications. They mainly undertake construction works that acquire through public bidding, and carry some construction works from GLDH's project development segment. The building construction business has a better cash collection record, yet its operation scale is relatively small.

### Commodities Trading and Others

In addition to project and construction related businesses, GLDH also engages in the trading of commodities. The commodities sold mainly include construction materials such as steel and commercial concrete. GLDH company operates on a "demand-based supply" model, purchasing commodities based on the needs of downstream customers. The company mainly transacts in cash with buyers, but also provides 2 to 3 months of credit period to some buyers and charge them interest.

GLDH also runs a diverse range of services including human resources, property management and leasing. Though these businesses are smaller in scale, they play a role in enhancing the variety and breadth of the company's overall business portfolio.

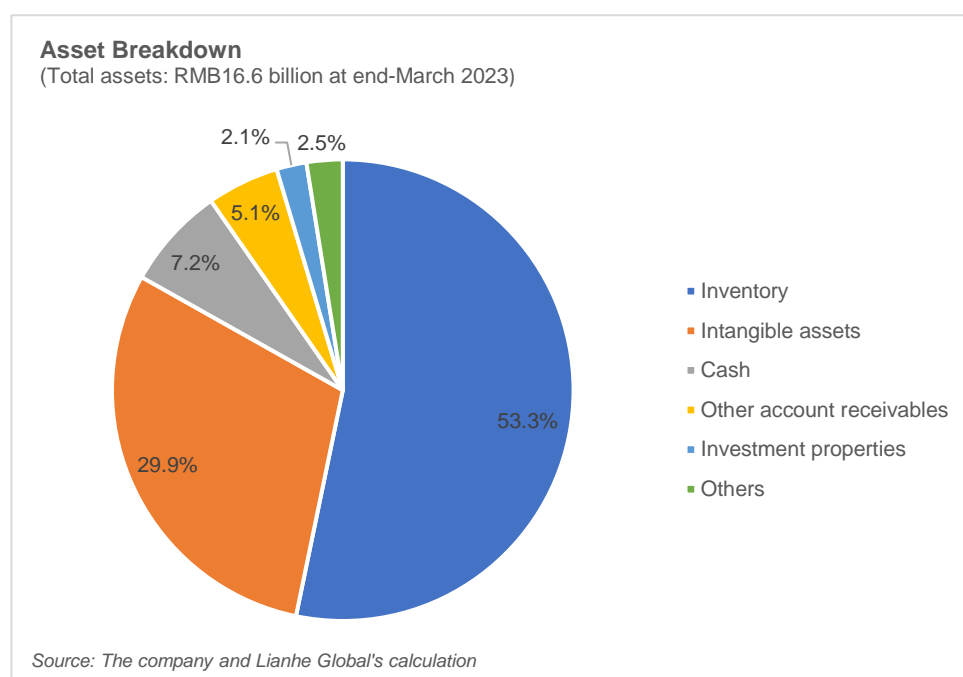
## Financial Profile

### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023.3</b>
Total Asset	8,281	8,976	16,047	16,624
Equity	4,903	5,012	9,899	9,911
Debt	1,839	2,112	2,634	2,828
Debt / (Debt + Equity) (%)	27.3	29.6	21.0	22.2
LT Debts	328	442	955	987
LT Debt / (LT Debt + Equity) (%)	6.3	8.1	8.8	9.1

*Source: The company's financial reports and Lianhe Global's calculations*

GLDH's total assets doubled to RMB16.62 billion at end-March 2023 from RMB8.28 billion at end-2020, mainly supported by the asset injections from the Lizhou district government in 2022, enhancing the company's equity base to RMB9.91 billion from RMB4.90 billion. The assets injected mainly included mining rights, local franchises for parking lots and billboards, etc. The company's debts also increased significantly to RMB2.83 billion from RMB1.84 billion over the same period. Due to the larger increase in the equity, the company's financial leverage has maintained at a relatively low level in the past few years. The total debt/capitalization of the company decreased to 22.2% at end-March 2023 from 27.3% at end-2020.



GLDH's asset quality was moderately weak. As the company actively participated in project development and land consolidation in Lizhou District, it accumulated sizeable inventories (mainly construction costs and lands to be developed), which amounted to RMB8.85 billion at end-March 2023, accounting for 53.3% of the company's total assets. These inventories usually take a long time to monetize due to protracted construction, recognition and cash collection periods.

In addition, GLDH had intangible assets amounting to RMB4.97 billion at end-March 2023, which accounted for 29.9% of the total assets. These intangibles mainly comprised the mining rights and local franchises injected by the local government. We expect these assets to bring some leasing and mineral sales income to the company in the future.

Besides, GLDH had other account receivables of around RMB840 million at end-March 2023, mainly due from Lizhou government agencies and local SOEs. We expect the counterparty risk of these government-related receivables to be low. Yet the collection time is uncertain.

### Debt Servicing Capability

GLDH's liquidity was moderate. At end-March 2023, the company had cash of RMB1.19 billion (including restricted cash of RMB454 million). At the same time, the company had debt due within one year of RMB1.84 billion. GLDH mainly relies on bank borrowings to finance its debt repayments and business operations. We expect the GLDH to be able to roll over most of its short-term bank borrowings (end-March 2023: RMB232 million). At the same time, the company also had unused credit lines of RMB1.16 billion at end-March 2023.





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