

# Shandong Hejian State-owned Capital Investment Co., Ltd.

## Surveillance Report

### Summary

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

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Shandong Hejian State-owned Capital Investment Co., Ltd. (“SHSCI” or “the company”) to ‘BBB+’ from ‘BBB’. The Outlook is Stable.

### Summary

The Issuer Rating upgrade reflects the increased strategic importance of SHSCI in Heze City (“Heze”), as demonstrated in its newly assigned role in urban renewal, construction of related public facilities and rural revitalization, and strengthened role as the major state-owned asset operation entity in the region with the large amount asset injections from the Heze Municipal People’s Government (“Heze government”) gradually being leased out to external parties or for business cooperations.

We believe there is a high possibility that Heze government would provide strong support to SHSCI if needed, in light of its direct ownership of SHSCI, SHSCI’s strategic position as the major entity that is responsible for land development, infrastructure construction, resettlement housing construction, as well as its important status as the major state-owned asset operation entity in the region, and the strong linkage between the Heze government and SHSCI, including control and supervision over SHSCI’s management, strategic alignment and ongoing operational and financial support. In addition, the Heze government may face significant negative impact on its reputation, business, and financing activities should SHSCI encounter any operational or financial difficulties.

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

### Rating Rationale

**Strong linkage and Strategic alignment with the Heze government:** SHSCI’s linkage with the local government is strong as it is majority owned by the Heze government. The Heze government holds a 99.674% stake in SHSCI through the State-owned Assets Supervision and Administration Commission of the Heze government, and it is SHSCI’s ultimate shareholder. The rest of the 0.55% share is held by Shandong Caixin Asset Operation Co., Ltd., a LIDC fully owned by Shandong Provincial Finance Department.

Heze government has strong control and supervision over SHSCI, including control of the board of directors and the supervisory committee, the appointment of senior managements, and the supervision over its major operating and financing plans. In addition, the government assigns auditors to audit SHSCI’s financial and operational data periodically. SHSCI’s strategic planning and development have been aligned with the local government’s economic and social policies.

**Strategic Importance of SHSCI to Heze:** As the second largest LIDC in the region, SHSCI is responsible for infrastructures construction, as well as resettlement housing construction and land development and consolidation to promote the urban upgrading of Heze. The company has newly been entrusted for the urban renewal and transformation project in the

### Key Figures of Heze and SHSCI

(RMB billion)	2021	2022
<b>Heze</b>		
GDP	397.7	420.5
GDP growth rate (%)	8.8	4.2
Budgetary revenue	28.4	29.0
government fund	47.2	36.5
Transfer payment	36.8	40.3
Budgetary expenditure	63.3	65.4
<b>SHSCI</b>		
	<b>2022</b>	<b>2023.6</b>
Total Asset	44.7	44.5
Equity	32.3	32.6
Revenue	4.1	2.2

Source: Statistics Bureau of Heze, Finance Bureau of Heze, SHSCI and Lianhe Global’s calculations

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### Applicable Criteria

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

eastern area of Changjiang Road, along with the corresponding urban development and the construction of related public facilities. As the major entity that undertakes the responsibility to operate state-owned asset in Heze, SHSCI's land development function and its role in rural construction have been further enhanced and improved with the large land use right and fixed assets injection in 2022. Besides, the company will oversee rural revitalization projects in various districts and counties of Heze.

**Ongoing government Support:** SHSCI has received support from the local government for its business operation, including capital injection, financial subsidies, allocation of land resources or assets and guidance in its daily management, which we expect to continue. The asset injection in 2022 mainly included land use rights and fixed assets, which was earmarked to support SHSCI's land development and consolidation business. SHSCI also received financial subsidies from the local government to maintain its business operation. Heze government will repurchase some infrastructure projects and resettlement housing projects upon completion. Given the strategic importance of SHSCI in land development and construction of infrastructure related projects in the region, SHSCI and its subsidiaries have advantages to obtain land resources and main projects.

**Financial Positions of SHSCI:** SHSCI's total assets increased to RMB44.5 billion at end-June 2023 from RMB21.0 billion at end-2021, due to large injection of fixed assets and intangible assets from the Heze government. SHSCI depended much on debt financing, and the total debts of the company jumped to RMB6.7 billion at end-June 2023 from RMB4.4 billion at end-2021. Having said that, its financial leverage, as measured by total liabilities/total assets, dropped significantly to 26.7% at end-June 2023 from 41.3% at end-2021, mainly due to the substantial increase in total assets after the asset injection, along with the increase in the capital surplus from RMB6.0 billion at end-2021 to RMB16.0 billion at end-June 2023.

The liquidity of SHSCI was relatively tight. SHSCI had a cash balance of approximately RMB3.0 billion and unused credit facilities of RMB1.7 billion at end-June 2022, compared with debt within one year of RMB4.2 billion. Having said that, SHSCI has financing channels including bank loans and bond issuance to support its debt repayment and business operation.

**Economy and Fiscal Condition of Heze:** Heze realized a GDP of RMB420.5 billion in 2022, representing a year-on-year growth of 4.2%, which was higher than the growth rate of the GDP of China (3.0%) and that of Shandong Province (3.9%). Yet its absolute amount of GDP was still low. It was ranked 8th in Shandong Province in 2022 (out of the 16 prefecture-level cities). At the same time, Heze's GDP per capita was RMB48,431, which was ranked 15th in Shandong Province, and it was below the province's average of RMB85,973.

Heze's budgetary revenue growth bounced back in 2021 but slowed in 2022, with a growth rate of 19.3% and 7.0%, respectively. Affected by the value-added tax credit refund policy, the tax revenue as a percentage of its budgetary revenue decreased from 77.0% in 2021 to 66.7% in 2022, a record low in recent years. The government fund income of Heze also decreased by 22.7% to RMB36.5 billion in 2022, mainly due to the decline in land-transferring fees. In addition, Heze's government debt and budget deficit were high. Its government debt increased to RMB131.2 billion at end-2022 from RMB110.8 billion at end-2021, representing year-on-year growth of 18.4%, and the budget deficit increased to 125.9% in 2022. Heze government's fiscal debt ratio (total government debt outstanding/aggregate revenue) exceeded 100% in 2022, which was mainly due to the significant increase in its special purpose debt.

### Rating Sensitivities

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

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

### Company Profile

SHSCI was established in 2019 on the basis of the Shandong Hejian Construction Group Co., Ltd. by the Heze SASAC with a registered capital of RMB500 million at the time of establishment. After several rounds of capital injections, SHSCI's registered capital enlarged to RMB5 billion at end-June 2023.

SHSCI focuses on the infrastructure construction, land development and state-owned asset operation to implement the related instructions of Heze governments, thus realizing the overall urban upgrading. It also carries out engineering construction, agent construction, real estate sales and other businesses such as construction material sales and construction labor service.

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