

Liangshan Development (Holdings) Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	30 October 2023

Key Figures of Liangshan and LDHG

(RMB billion)	2021	2022
Liangshan		
GDP	190.1	208.1
GDP growth rate (%)	7.2	6.0
Budgetary revenue	17.3	18.4
Government fund	8.6	8.3
Transfer payment	43.3	50.5
Budgetary expenditure	62.4	63.2
LDHG		
Total Asset	118.1	120.4
Equity	57.7	58.4
Revenue	6.2	2.3

Source: Statistics Bureau of Liangshan, Finance Bureau of Liangshan, LDHG and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Liangshan Development (Holdings) Group Co., Ltd. (“LDHG” or “the company”) to ‘BBB’ from ‘BBB-’. The Outlook is Stable.

Summary

The Issuer Rating upgrade reflects the increased strategic importance of LDHG in the development of Liangshan, as demonstrated by its higher involvement and investment in clean energy, strategic resources, financial institutions and other industry investment in the region. In addition, the equity interest of the company held by the Liangshan Yi Autonomous Prefecture State-owned Assets Supervision and Administration Commission (“SASAC of Liangshan”) increased to 70.99% at end-June 2023 (end-2022: 58.6%). The Sichuan Provincial Department of Finance remained the second largest shareholder owning 9.79% of LDHG at end-June 2023.

We believe there is a high possibility that Sichuan’s Liangshan Yi Autonomous Prefecture Government (“Liangshan government”) would provide strong support to LDHG if needed, in light of the Liangshan government’s majority ownership in LDHG, LDHG’s strategic importance as the sole prefecture-level local investment and development company responsible for state-owned capital operation, investment and financing in Liangshan, and the linkage between the Liangshan government and LDHG, including supervision of the senior management, strategic alignment and ongoing operational and financial support. In addition, the Liangshan government may face significant negative impact on its reputation, business and financing activities should LDHG encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that LDHG’s strategic importance would remain intact while the Liangshan government will continue to ensure LDHG’s stable operation. The Liangshan government has provided ongoing strong support to LDHG, including asset and capital injections, equity transfers, financial subsidies, preferential tax policies, etc.

Rating Rationale

Strong linkage and Strategic alignment with the Liangshan government: LDHG’s linkage with the local government is strong as the Liangshan government has a majority ownership of LDHG via the SASAC of Liangshan. At end-June 2023, the equity interest of the company held by the SASAC of Liangshan increased to 70.99% at end-June 2023 (end-2022: 58.6%), and the Liangshan government is still the ultimate controller of LDHG. SASAC of Liangshan has strong management supervision over LDHG, including approvals of board members and senior managers and major operating and financing plans. LDHG’s strategic planning and development have been aligned with the prefectural government’s economic and social development policies.

Strategic Importance of LDHG to Liangshan: LDHG is still the largest and most important investment and financing platform in Liangshan. The Liangshan government is committed to developing LDHG as the sole prefecture-level state-owned investing and financing

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Applicable Criteria

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

platform that is responsible for urban construction and supporting the economic development in the region. Ongoing consolidations of industrial and capital resources through asset/capital injections and project acquisitions have expanded LDHG's business scope and asset size. We believe that the Liangshan government is willing to extend support to LDHG in view of its strategic important role as the flagship LIDC platform in Liangshan. According to the management, the company will have new government function businesses, such as clean energy, strategic resources, industry investment, etc. We believe this will further enhance the strategic importance of the company.

Ongoing government Support: LDHG has continued receiving capital and assets injections from the Liangshan government and other government departments in Liangshan. The injections include capital, cash, equity transfer, contraction projects and other fixed assets and intangible assets such as sand mining rights and land use rights. LDHG (including its subsidiaries) received capital and assets injections of approximately RMB 20.2 billion in 2022 and RMB32.5 million for the first half of 2023.

LDHG has also received financial subsidies from the local government mainly for supporting its daily operation, infrastructure construction projects and public welfare services, etc. LDHG received RMB185.2 million and RMB71.9 million of government subsidies and tax benefits in 2022 and for the first half of 2023, respectively, to support its daily operations. We believe LDHG is likely going to continue to receive government support in the form of operational and/or financial subsidies in the future.

Financial Positions of LDHG: LDHG's total asset increased to c. RMB120.4 billion at end-June 2023 from c. RMB118.1 billion at end-2022, mainly due to the increase of construction-in-progress. At end-June 2023, the increase of LDHG's total liabilities was mainly due to the increase of short-term loan, contract liabilities and bonds payable. LDHG's financial leverage (total liabilities to assets) was 51.5% at end-June 2023, which remained roughly unchanged from 51.1% at end-2022 and decreased from 54.0% at end-2021.

LDHG's liquidity was moderately weak. It had a cash balance of approximately RMB5.3 billion (unrestricted cash of RMB5.2 billion) and unused credit line of RMB13.0 billion at end-June 2023, compared with its debt will be due within one year of RMB14.1 billion at the same time. LDHG also had an available issuance quota in onshore and offshore market of approximately RMB31.3 billion at end-June 2023. LDHG has access to various financing channels including bank loans, onshore and offshore bonds issuance, other non-traditional financing such as finance leasing and trust loan.

Economy and Fiscal Condition of Liangshan: Liangshan's GDP increased to RMB208.1 billion, representing a year-over-year growth rate of 6.0% in 2022. The industrial structure remained unchanged, of which the secondary and tertiary industries were the main force of its economic growth. The GDP per capita and disposal income per capita were RMB43,000 and RMB26,006 in 2022, respectively.

Liangshan has persistently obtained strong support from the central and provincial governments mainly in the form of transfer payments to support the development of rural impoverished areas and ethnic minorities. We expect Liangshan to receive ongoing subsidies from higher governments to support its fiscal expenditure. In 2022, the Liangshan government received subsidies of RMB50.5 billion. Meanwhile, the budgetary revenue increased by 14.4% to RMB18.4 billion, while the percentage of tax revenue declined to 56% of its budgetary revenue. The debt ratio (i.e. Total government debt divided by aggregate fiscal revenue) slightly decreased to 58.8% at end-2022 from 61.1% at end-2021. Liangshan had RMB45.4 billion outstanding debt at end-2022, including RMB31.5 billion of general obligations and RMB13.9 billion for special projects.

Rating Sensitivities

We would consider downgrading LDHG's rating if (1) there is perceived weakening in support from the Liangshan government, particularly due to its reduced strategic importance if it is no longer the largest and most important investment and financing platform in Liangshan, or (2) there is a downgrade in our internal credit assessment on the Liangshan government.

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

Company Profile

LDHG was established in December 2008 under the 2008 government directive (no.319) by amalgamating Liangshan National Investment Company, Liangshan State-owned Asset Management Limited Company and Liangshan Investment Company. In 2022, the company's capital surplus of RMB9.4 billion was converted to paid-in capital. During the same period, the Muli County Finance Bureau ("Muli FB") contributed RMB357 million as a shareholder of the company by original capital injection. The Muli FB became a new shareholder of the company, holding 2.19% of the company's equity. At end-June 2023, the registered capital and paid-in capital of the company were both RMB16.4 billion.

The equity interest of the company held by the SASAC of Liangshan increased to 70.99% as of end-June 2023 (end-2022: 58.6%). The SASAC of Liangshan was the largest shareholder of LDHG, followed by the Sichuan Provincial Finance Department of 9.79% and the remaining shareholders were the SASACs or Finance Bureau of subordinate counties in Liangshan.

LDHG focuses on the infrastructure construction, state-owned asset operation, investment and financing in Liangshan to implement the related instructions of Liangshan governments. It also carries out project construction, agent construction, real estate sales and other businesses such as construction material sales and electricity sales. According to the management of the company, the company will have more involvement and investment in clean energy, strategic resources, financial institutions and other industry investment in the region, to support local economic and social development.

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