Press Release
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Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shandong Mingshui Guokai Development Group Co., Ltd.

HONG KONG, 10 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Shandong Mingshui Guokai Development Group Co., Ltd. (“SMGD” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Government’s Ownership and Supervision: The management committee indirectly holds 76% shares of SMGD and is the company’s ultimate controller. The Zhangqiu State-Owned Assets Operation Co., Ltd., another LIDC in Zhangqiu, holds the rest of 24%. The local government has strong control over the company, including the appointment of senior management and supervision of SMGD’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: SMGD is an important LIDC in Zhangqiu that is responsible for the development and operation of Mingshui EDZ. The company undertakes infrastructure and resettlement house project and operates industrials parks in Mingshui EDZ. 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 SMGD. The local government injected assets, including industrial parks, coal mine and resettlement house projects, valued at c. RMB2.4 billion between 2020 and the first half of 2023. Over the same period, the company received operational subsidies amounting to RMB435 million to support SMGD's activities in relation to providing public goods. We expect SMGD to receive ongoing support from the local government in the coming years considering its strategic importance in Zhangqiu.

Economy and Fiscal Condition of Zhangqiu: Zhangqiu is a municipal district under the jurisdiction of Jinan, the provincial capital of Shandong Province. Zhangqiu's GDP growth rate showed a downward trend in the past three years, recording at 7.2%, 4.6% and 0.1% in 2020, 2021 and 2022, respectively. Zhangqiu realized a GDP of RMB112.1 billion in 2022, which was ranked 4th among twelve jurisdictions of Jinan. Zhangqiu's GDP per capita was c. RMB102,300 in 2022, which was lower than the GDP per capita of Jinan (c. RMB127,700) but higher than that of Shandong (c. RMB86,000).

Mingshui EDZ was established as a provincial development zone approved by the Shandong provincial government in December 1992. In October 2012, it was upgraded to a national economic and technological development zone approved by the State Council. Mingshui EDZ has nurtured four leading industries of high-end equipment, new materials, new medicine and new information.

The Zhangqiu government's budgetary revenue decreased substantially to RMB5.4 billion in 2022 from RMB7.7 billion in 2021, due to the large-scale value-added tax refund policy as well as the economic slowdown. Its fiscal self-sufficiency rate lowered substantially, and its budget deficit widened to 53.8% in 2022 from 6.4% in 2021. In addition, Zhangqiu's government fund income (including the return of land-transferring incomes from the higher government) decreased to RMB1.4 billion in 2022 from RMB10.9 billion in 2021, owing to the weak property market.

Zhangqiu's government debt continued to grow in the past three years as the local government issued large amount of special debts to support projects' development in Zhangqiu. At end-2022, Zhangqiu's government debt reached RMB16.9 billion, up from RMB12.0 billion at end-2020. Its government debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased sharply to 157.2% from 47.0% over the same period, due to the increase in special debt as well as the decrease in aggregate revenue.

SMGD's Financial and Liquidity Position: SMGD's asset size grew rapidly to RMB18.2 billion at end-June 2023 from RMB10.4 billion at end-2020, largely attributed to the company's active participation in Mingshui EDZ's project development. As the company heavily relied on borrowings to fund its asset expansion its financial leverage, as measured by debt/capitalization increased significantly to 48.5% from 29.4% over the same period. At end-June 2023, SMGD's total debt reached RMB7.3 billion, up from RMB2.2 billion at end-2020.

In addition, SMGD's asset liquidity was weak, as it held a lot of investment properties (mainly industrial parks for leasing) and inventories (mainly lands and construction costs), which reached RMB7.1 billion and RMB5.7 billion at end-June 2023, representing 39.3% and 31.1% of the company's total asset, respectively. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

SMGD's s short-term debt pressure was high. At end-June 2023, the company had cash of RMB1.0 billion (including restricted cash of RMB287 million). At the same time, the company had debt due within one year of RMB2.2 billion. Nevertheless, SMGD has access to various financing channels, including bank borrowings, onshore and offshore 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 RMB3.8 billion.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this SMGD's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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