

# Weifang City Western Investment and Development Group Co., Ltd.

## Initial Issuer Report

### Summary

<b>Issuer Rating</b>	BBB-
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	27 December 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Weifang City Western Investment and Development Group Co., Ltd. (“WCWID” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Weicheng District, Weichang City (“Weicheng government”) would provide strong support to WCWID if needed, in light of its full ownership of WCWID, WCWID’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and operation and land consolidation in Weicheng District, Weifang City (“Weicheng”), and the linkage between the Weicheng government and WCWID, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Weicheng government may face significant negative impact on its reputation and financing activities if WCWID encounters any operational and financial difficulties.

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

### Rating Rationale

**Weicheng Government’s Ownership and Supervision:** The Weicheng government holds the full ownership of WCWID through the State-owned Assets Supervision and Administration Bureau of Weicheng District (“Weicheng SASAB”). The Weicheng government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Weicheng government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Weicheng and Strategic Alignment:** WCWID, as the key LIDC in Weicheng, is primarily responsible for the investment, development and operation of infrastructure and land consolidation projects within the region. Serving as the key entity in charge of infrastructure related projects throughout the entire district, WCWID mainly engaged in area development, urban renewal, road and pipeline construction and improvement, industrial park development and other infrastructure projects with strong regional advantages. WCWID plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government’s development plans.

**Ongoing Government Support:** WCWID received operational and financial support from the government. WCWID received a total subsidy amount of RMB957.7 million from 2020 to the first nine months of 2023. The Weicheng government continued to inject capital, land assets and other kinds of assets into WCWID to expand its asset size. Besides, the Weicheng government will repurchase some infrastructure projects and provide policy

### Key Figures of Weicheng and WCWID

(RMB billion)	2021	2022
<b>Weicheng</b>		
GDP	36.4	37.1
GDP growth rate (%)	9.9	1.1
Budgetary revenue	2.5	2.1
Government fund	4.2	1.7
Transfer payment	1.9	1.5
Budgetary expenditure	2.7	2.6
<b>WCWID</b>		
	<b>2022</b>	<b>2023.9</b>
Assets	24.5	26.6
Equity	10.0	10.3
Revenue	1.9	1.3

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

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### Applicable Criteria

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

supports to WCWID to ensure its business operation. Given that it is the key entity for infrastructure construction and operation in Weicheng, WCWID has an advantage in acquiring related resources and major projects. We believe WCWID is likely going to receive government support to support its daily business operation.

**WCWID's Financial Matrix and Liquidity Position:** WCWID's total assets showed a continuous growth trend in the past years and reached RMB26.6 billion at end-September 2023, mainly due to the increase of inventories and contract assets. The non-current assets of WCWID accounted for 26.1% of the total assets at end-September 2023, but the overall asset liquidity was moderate due to large amount of development cost related to the company's infrastructure projects. WCWID's financial leverage (total liabilities to total assets) was 61.3% and its adjusted debt increased to RMB12.0 billion at end-September 2023 from RMB11.5 billion at end-2021. The liquidity of WCWID was tight. At end-September 2023, WCWID had a cash balance and unused credit facilities of RMB2.1 billion (including restricted cash of RMB1.8 billion) and RMB870 million, respectively, compared with its debt due within one year of RMB4.6 billion. Having said that, WCWID has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Condition of Weicheng:** Weicheng is a municipal district of Weifang City, Shandong Province ("Weifang"), with a total land area of 270 square kilometers. Weicheng recorded an economic growth in 2022, achieving a GDP of RMB37.1 billion, with a year-on-year growth of 1.1%. Its GDP scale was ranked 11<sup>th</sup> among all jurisdictions of Weifang in 2022.

The Weicheng government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The budgetary revenue decreased to RMB2.1 billion in 2022 from RMB2.5 billion in 2021, due to the large-scale value-added tax credit refund policy to support the economy. The Weicheng government's fiscal self-sufficiency rate was relatively high, and its budget deficit widened to 23.9% in 2022 from 9.9% in 2021. On the other hand, Weicheng's government fund income, mainly generated by land sales, slumped by 59.3% year-over-year to RMB1.7 billion in 2022, owing to the weak property market. The fiscal debt ratio of the Weicheng government, as measured by total government debt outstanding/aggregate revenue, increased to 105.5% at end-2022 from 47.2% at end-2020, mainly due to the increase in special debt.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Weicheng

Weicheng is a municipal district of Weifang City, Shandong Province ("Weifang"), and is located in the central urban area of Weifang. Weicheng has jurisdiction over 6 streets, two

administrative areas and one provincial economic development zone, with a total area of 270 square kilometers. At end-2022, Weicheng had a resident population of 0.5 million, with an urbanization rate of 82.3%.

Weicheng's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 4.9%, 9.9% and 1.1% in 2020, 2021 and 2022, respectively. Weicheng's GDP reached RMB37.1 billion in 2022, which was ranked 11<sup>th</sup> in all jurisdictions of Weifang. Weicheng's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 50.3% and 47.9% in 2022, respectively. Its economic development focused on emerging industries such as intelligent assembly equipment, laser radar, etc. in recent years.

<b>Weicheng's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	30.8	36.4	37.1
-Primary industry (%)	2.0	1.8	1.8
-Secondary industry (%)	48.2	50.1	50.3
-Tertiary industry (%)	49.8	48.1	47.9
GDP growth rate (%)	4.9	9.9	1.1
Fixed asset investment	12.2	14.2	12.0
Fixed asset investment growth rate (%)	5.1	16.3	-15.2
Population (million)	0.5	0.5	0.5

*Source: Public information and Lianhe Global's calculations*

## Fiscal Condition of Weicheng

The Weicheng government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The budgetary revenue decreased to RMB2.1 billion in 2022 from RMB2.5 billion in 2021, due to the large-scale value-added tax credit refund policy to support the economy. The Weicheng government's fiscal self-sufficiency rate was relatively high, and its budget deficit widened to 23.9% in 2022 from 9.9% in 2021. On the other hand, Weicheng's government fund income, mainly generated by land sales, slumped by 59.3% year-over-year to RMB1.7 billion in 2022, owing to the weak property market.

The outstanding debt of the Weicheng government continued to grow in the past few years, recording at RMB5.6 billion at end-2022, up by 35.8% compared with that at end-2021. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had surged to 105.5% at end-2022 from 47.2% at end-2020, mainly due to the increase in special debt.

<b>Weicheng's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	2.2	2.5	2.1
Budgetary revenue growth rate (%)	2.6	13.9	-16.4
Tax revenue	1.9	2.1	1.4
Tax revenue (% of budgetary revenue)	88.2	83.9	65.6
Government fund income	3.0	4.2	1.7
Transfer payment	1.3	1.9	1.5
<b>Aggregate revenue</b>	<b>6.4</b>	<b>8.5</b>	<b>5.3</b>
Budgetary expenditure	2.4	2.7	2.6
Budget balance <sup>1</sup> (%)	-8.4	-9.9	-23.9

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

*Source: Public information and Lianhe Global's calculations*

## Ownership Structure

### Government's Ownership

WCWID was established in June 2007 with an initial registered capital of RMB9 million, funded by the Weicheng SASAB. After an array of capital injections, the company's registered and paid-in capital were RMB2.0 billion and RMB1.7 billion at end-September 2023, respectively. WCWID had a shareholding structure in which the Weicheng SASAB, as the sole shareholder and actual controller of the company, held 100% of the company's equity.

## Strategic Importance and Government Linkage

### Strategic Importance of WCWID to Weicheng

WCWID, as the key LIDC in Weicheng, is primarily responsible for the investment, development and operation of infrastructure and land consolidation projects within the region. Serving as the key entity in charge of infrastructure related projects throughout the entire district, WCWID mainly engaged in area development, urban renewal, road and pipeline construction and improvement, industrial park development and other infrastructure projects with strong regional advantages. WCWID plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

### Strong Linkage with the Local Government

WCWID's linkage with the local government is strong as the Weicheng government holds the full ownership of WCWID through Weicheng SASAB. The Weicheng government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Weicheng government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

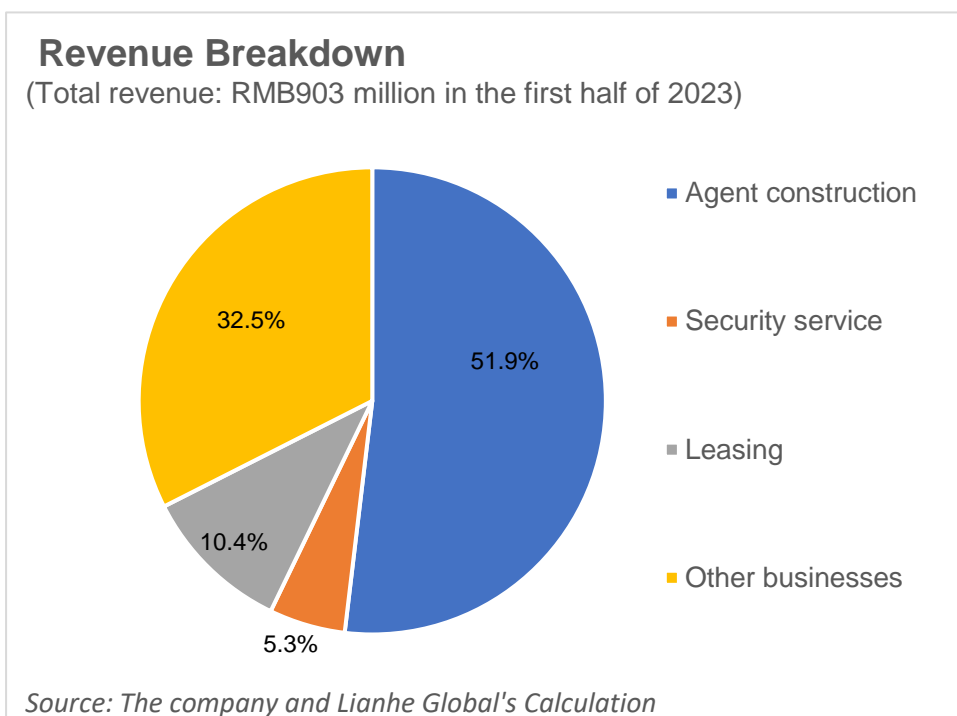
### Government Support

WCWID received operational and financial support from the government. WCWID received a total subsidy amount of RMB957.7 million from 2020 to the first nine months of 2023. The Weicheng government continued to inject capital, land assets and other kinds of assets into WCWID to expand its asset size. Besides, the Weicheng government will repurchase some infrastructure projects and provide policy supports to WCWID to ensure its business operation. Given that it is the key entity for infrastructure construction and operation in Weicheng, WCWID has an advantage in acquiring related resources and major projects. We believe WCWID is likely going to receive government support to support its daily business operation.

## Business Profile

### The Key Entity Responsible for Infrastructure Construction in Weicheng

WCWID, as an important LIDC in Weicheng, is mainly responsible for the infrastructure construction as well as the investment, construction and operation of key municipal projects within the region, with a strong franchise advantage. The primary sources of operating revenue for WCWID are agent construction, while it also engaged in security service, leasing, commodity sales, property service, etc. The company's total revenue was on an upward trend in the past few years, recording at RMB1.6 billion, RMB1.7 billion, RMB1.9 billion and RMB0.9 billion in 2020, 2021, 2022 and the first half of 2023, respectively. Its gross profit margin fluctuated between 19% and 31% over the same period.



### Agent Construction

WCWID is designated by the Weicheng government to undertake land consolidation, shantytown renovation and infrastructure construction business within the region. The projects in this segment are generally conducted in agent construction model, where company signed agent construction agreement with local government agencies and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a percentage of management fees annually with the entrusting party according to the project's progress. The revenue derived from this segment reached RMB1.2 billion, RMB1.1 billion, RMB1.1 billion and RMB0.5 billion in 2020, 2021, 2022 and the first half of 2023, respectively. Its gross profit margin was relatively stable, staying between c. 13% and 16% over the same period. Currently, projects under construction and to be constructed still require a large scale of investment, thus it incurs high pressure on capital expenditure.

### Security Service

Security service business is handled by the company's subsidiary, Zhongcheng Security Service Co., Ltd., which provides security services such as guard patrols, security checks, order maintenance, etc. The revenue derived from this segment reached RMB91 million, RMB108 million, RMB106 million and RMB48 million in 2020, 2021, 2022 and the first half

of 2023, respectively. Its gross profit margin was relatively low, staying between 2% and 6% in 2020-2022 but dropping to -0.9% in the first half of 2023.

### Leasing Business

WCWID also engages in leasing business, which mainly involves the leasing of office buildings and vehicles. The revenue derived from this segment reached RMB58 million, RMB157 million, RMB208 million and RMB94 million in 2020, 2021, 2022 and the first half of 2023, respectively. Its gross profit margin was relatively high, staying between 48% and 64% over the same period.

### Other Businesses

Except for the above businesses, the company also operates other businesses including commodity sales, property service, etc., making the company's income structure more diversified while forming a better complement to the company's overall income.

## 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>September 2023</b>
Total Asset	19,350	22,112	24,481	26,588
Equity	7,875	8,521	9,993	10,301
Debt	9,953	11,451	12,117	12,046
Debt / (Debt + Equity) (%)	55.8	57.3	54.8	53.9
LT Debt	6,950	7,082	7,405	7,494
LT Debt / (LT Debt + Equity) (%)	46.9	45.4	42.6	42.1

*Source: Company information and Lianhe Global's calculations*

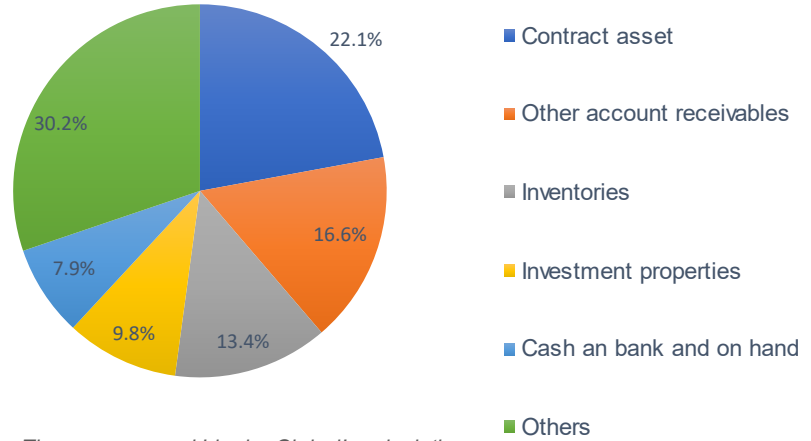
WCWID's total asset grew steadily in the past few years, increasing to RMB26.6 billion at end-September 2023 from RMB19.4 billion at end-2020. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. The company's financial leverage, as measured by total liability/total asset, remained relatively stable at 60% in the past few years. The total debt capitalization ratio and long-term debt capitalization ratio were both on a downward trend in the past few years, recording at 53.9% and 42.1% at end-September 2023, respectively.

WCWID's asset liquidity was weak, as it has large part of inventories, contract asset and investment properties, which added up to RMB12.0 billion, and representing 38.7% of total asset at end-September 2023. These assets usually take a long time to monetize due to the protracted construction and payment collection period. In addition, the company had a large number of other receivables, primarily due from government agencies and local LIDCs. Their repayment schedules are highly subject to the fiscal conditions of the local government.



### Asset Breakdown

(Total assets: RMB26.6 billion at end-September 2023)



Source: The company and Lianhe Global's calculation

### Debt Servicing Capability

The liquidity of WCWID was tight. At end-September 2023, WCWID had a cash balance and unused credit facilities of RMB2.1 billion (including restricted cash of RMB1.8 billion) and RMB870 million, respectively, compared with its debt due within one year of RMB4.6 billion. Having said that, WCWID has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayment and business operations.



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