

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Weihai Hongtai Investment Holding Group Co., Ltd.

HONG KONG, 3 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Weihai Hongtai Investment Holding Group Co., Ltd. (“WHIH” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Weihai Government’s Ownership and Supervision: The Weihai government holds 100% ownership of WHIH through the Weihai State-owned Asset Supervision and Administration Committee (“Weihai SASAC”). The local government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. The local government also coordinates WHIH’s financings and debt repayments. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance and Strategic Alignment: As the local government transferred an array LIDCs’ equity and other assets to WHIH, the company has become one of the largest LIDC in terms of asset size in Weihai. It focuses on the construction of infrastructure, industrial parks and other municipal facilities in Weihai’s Wendeng District. The company’s business operation and strategic planning have been aligned with the government’s development plans, playing a significant role in promoting the economic and social development of the region.

Ongoing Government Support: WHIH receive ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations. The company received financial subsidies amounting to RMB4.6 billion between 2020 and the first nine months of 2023 from the local government. Over the same period, the local government also injected fiscal funds, pipe network and use right of sea area totaling RMB6.1 billion. We believe that the local government support will remain intact given the company's strategic importance in Weihai.

Economy and Fiscal Condition of Weihai: Weihai is a prefecture-level city under the jurisdiction of Shandong Province and located at the eastern end of Shandong Peninsula, bordering the Yellow Sea on three sides. As a regional hub city in Shandong Peninsula, Weihai boasts abundant marine resources and tourism attractions.

Weihai's GDP per capita was relatively high, recording RMB116,900 in 2022, higher than Shandong's RMB86,000. However, its GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.0%, 7.5% and 1.5% in 2020, 2021 and 2022, respectively. The fixed asset investment fell by 18.9% in 2022, owing to significant drop of property investment.

The Weihai government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The Weihai government's budgetary revenue decreased to RMB22.5 billion in 2022 from RMB26.7 billion in 2021, mainly due to the large-scale value-added tax credit refund policy to support the economy. On the other hand, the government fund income, mainly generated by land sales, slumped by 23.1% year-over-year to RMB31.0 billion in 2022, owing to the weak property market. The Weihai government's fiscal self-sufficiency rate was relatively low, and it recorded a budget deficit of 78.2% in 2022.

The outstanding debt of the Weihai government continued to grow in the past three years, recording at RMB89.5 billion at end-2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 136.7% at end-2022 from 91.9% at end-2020, mainly due to the new issuance of in special debt to support infrastructure, industrial parks and other public projects.

WHIH's Financial and Liquidity Position: WHIH's total asset grew steadily to RMB65.5 billion end-September 2023 from RMB51.3 billion at end-2020. The company mainly relied on capital and asset injections from the local government to fund its asset expansion. Therefore, the company's financial leverage, as measured by debt/capitalization was largely stable and manageable, recording at 27% at end-September 2023.

WHIH's asset quality was moderately weak, as it had a large size of inventories (mainly lands to be developed and construction costs for its project construction activities), which amounted to RMB45.3 billion at end-September 2023, representing 69.2% of total asset. The company has no specific development plan for its inventory lands, while the cash collection schedule for construction costs is subject to the local government's fiscal condition.

The liquidity of WHIH was tight. At end-September 2023, the company had cash balance of RMB1.8 billion (including restricted cash of RMB1.6 billion), compared with its debt due within one year of RMB4.6 billion. At the same time, the company only had unused bank facilities of RMB778 million. We expect the company to roll over most of its short-term bank borrowings (end-September 2023: c. RMB2.0 billion). Yet obtaining additional financing channels and timely government support are important for WHIH to maintain its liquidity.

Rating Sensitivities

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

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

Contact Information

Primary Analyst
Karis Fan, CESGA
Analyst
(852) 3462 9579
karis.fan@lhratingsglobal.com

Secondary Analyst
Roy Luo, FRM, CESGA
Associate Director
(852) 3462 9582
roy.luo@lhratingsglobal.com

Committee Chairperson
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi, CESGA
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.