

Shouguang Port Investment Holding Group Co., Ltd.

Initial Issuer Report

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Shouguang Port Investment Holding Group Co., Ltd. (“SGPI” or “the company”)

Summary

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

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

Rating Rationale

Shouguang Government’s Ownership and Supervision: The Shouguang State-owned Asset Supervision and Administration Bureau (“Shouguang SASAB”) is the sole shareholder and actual controller of SGPI. The Shouguang government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Shouguang government formulates 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: As an important LIDC in Shouguang, SGPI is mainly responsible for industrial park investment and operation as well as projection construction in Shouguang. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The Shouguang government provided ongoing support to SGPI. The company has received total subsidies of RMB444.3 million from the Shouguang government during 2020 to 2022. Besides, the company received a series of asset injections with a total value of RMB400.5 million from the Shouguang government in 2021. In addition, the company’s paid-in capital was also enlarged to RMB370 million at end-September 2023 from RMB250 million in 2022. We expect SGPI to receive ongoing support from the Shouguang government in the coming years considering its strategic importance in Shouguang.

Economy and Fiscal Condition of Shouguang: Shouguang recorded a GDP of RMB95.4 billion in 2022, which was ranked 2nd among all 12 districts, county-level cities and counties under the administration of Weifang City. Its economic growth rate slowed down to 4.0% in 2022 from 10.5% in 2021 owing to Covid’s disruption. Its fixed asset investment growth rate

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	19 January 2024

Key Figures of Shouguang and SGPI (RMB billion)

Shouguang	2021	2022
GDP	95.4	100.2
GDP growth rate (%)	10.5	4.0
Budgetary revenue	10.3	9.8
Government fund	8.9	9.3
Transfer payment	2.8	3.3
Budgetary expenditure	12.4	12.8
SGPI	2022	2023.9
Asset	10.9	12.5
Equity	7.1	7.2
Revenue	0.7	0.4

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

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Applicable Criteria

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

was on an upward trend in the past few years, recording at 4.5%, 17.8% and 22.7% in 2020, 2021 and 2022, respectively.

The Shouguang government's budgetary revenue decreased to RMB9.8 billion in 2022 from RMB10.3 billion in 2021, due to the large-scale value-added tax credit refund policies to support the economy. The government fund income maintained a rapid growth in the past three years, becoming increasingly essential to the Shouguang government. However, the government fund income, mainly generated by land use right transfers, is vulnerable to the property market downturn.

Shouguang's government debt increased significantly to RMB18.6 billion at end-2022 from RMB15.8 billion at end-2020, mainly due to the increase in special debt to support a series of major projects. Moreover, the government debt has approached the government debt ceiling (99.9% in 2022), which may restrict its debt financing capacity in the coming years.

SGPI's Financial Matrix and Liquidity Position: SGPI's total asset grew rapidly to c. RMB12.5 billion at end-September 2023 from c. RMB7.4 billion at end-2020. The company mainly relied on capital injections from the local government and bank borrowings to fund its asset expansion. The company's financial leverage, as measured by debt/capitalization ratio was on an upward trend in the past few years, recording at 32.1% at end-September 2023.

The liquidity risk of SGPI was manageable. At end-September 2023, the company had cash balance of RMB102 million, compared with its debt due within one year of c. RMB1.2 billion. Nevertheless, the company has access to various financing channels, including bank borrowings and bond issuances to satisfy its obligations. In addition, SGPI also had unused bank facilities of RMB2.3 billion at end-September 2023.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Shouguang

Shouguang is a county-level city under the direct jurisdiction of Shandong Province and administered by Weifang City. Shouguang has jurisdiction over 5 streets and 9 towns, with a total land area of 2,072 square kilometers. At end-2022, Shouguang had a residential population of 1.21 million, with an urbanization rate of 63.5%. Renowned as China's Vegetable Capital, Shouguang has a well-developed vegetable industry based on greenhouse vegetable production and integrated with automation technologies. It is also an important production place of sea salt, providing food condiments and chemical materials countrywide. In addition, Shouguang has a manufacturing industry dominated by petrochemical, steel and papermaking.

As one of China's Top 100 Counties, Shouguang recorded a GDP of RMB95.4 billion in 2022, which was ranked 2nd (behind Kuiwen District) among all 12 districts, county-level cities and counties under the administration of Weifang City. Its economic growth rate slowed down to 4.0% in 2022 from 10.5% in 2021. The economic growth was mainly fueled by the secondary and tertiary industries, accounting for 43.5% and 43.4% of Shouguang's aggregate GDP, respectively, in 2022. Its fixed asset investment growth rate was on an upward trend in the past few years, recording at 4.5%, 17.8% and 22.7% in 2020, 2021 and 2022, respectively.

Shouguang's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	78.7	95.4	100.2
-Primary industry (%)	13.5	13.3	13.1
-Secondary industry (%)	41.6	41.9	43.5
-Tertiary industry (%)	44.9	44.8	43.4
GDP growth rate (%)	3.1	10.5	4.0
Fixed asset investment	46.0	54.2	66.5
Fixed asset investment growth rate (%)	4.5	17.8	22.7
Population (million)	1.2	1.2	1.2

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Shouguang

The Shouguang government's budgetary revenue decreased to c. RMB9.8 billion in 2022 from c. RMB10.3 billion in 2021, due to the large-scale value-added tax credit refund policies to support the economy. The contribution of the tax revenue also slumped to 56.8% in 2022 from 77.4% in 2021.

The government fund income maintained a rapid growth in the past three years, becoming increasingly essential to the Shouguang government, contributing c. 36.0%, 39.6% and 40.3% to its aggregate revenue in 2020, 2021 and 2022, respectively. However, the government fund income, mainly generated by land use right transfers, is vulnerable to the property market downturn.

The Shouguang government's fiscal self-sufficiency rate was manageable. It recorded budget deficits of -15.9%, -20.2% and -29.8% in 2020, 2021 and 2022, respectively. However, its government debt increased significantly to RMB18.6 billion at end-2022 from RMB15.8 billion at end-2020, mainly due to the increase in special debt to support a series of major projects. Moreover, the government debt has approached the government debt ceiling (99.9% in 2022), which may restrict its debt financing capacity in the coming years.

Shouguang's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	9.4	10.3	9.8
Budgetary revenue growth rate (%)	2.8	10.2	-4.9
Tax revenue	6.6	8.0	5.6
Tax revenue (% of budgetary revenue)	70.0	77.4	56.8
Government fund income	7.5	8.9	9.3
Transfer payment	2.8	2.8	3.3
Aggregate revenue	20.8	22.5	23.1
Budgetary expenditure	10.9	12.4	12.8
Budget balance ¹ (%)	-15.9	-20.2	-29.8

¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations



Ownership Structure

Government's Ownership

SGPI was established in December 2015 with an initial registered capital of RMB100 million, co-funded by three local state-owned enterprises ("SOEs"). After an array of equity transfers, the Shouguang SASAB was the sole shareholder and actual controller of the company, holding 100% of the SGPI's equity at end-September 2023.

Strategic Importance and Government Linkage

Strategic Importance of SGPI to Shouguang

As an important LIDC in Shouguang, SGPI is mainly responsible for industrial park investment and operation as well as projection construction in Shouguang. Its business operations and strategic planning have been aligned with the local government's economic and social development policies.

Strong Linkage with the Local Government

The Shouguang government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Shouguang government formulates a performance assessment policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

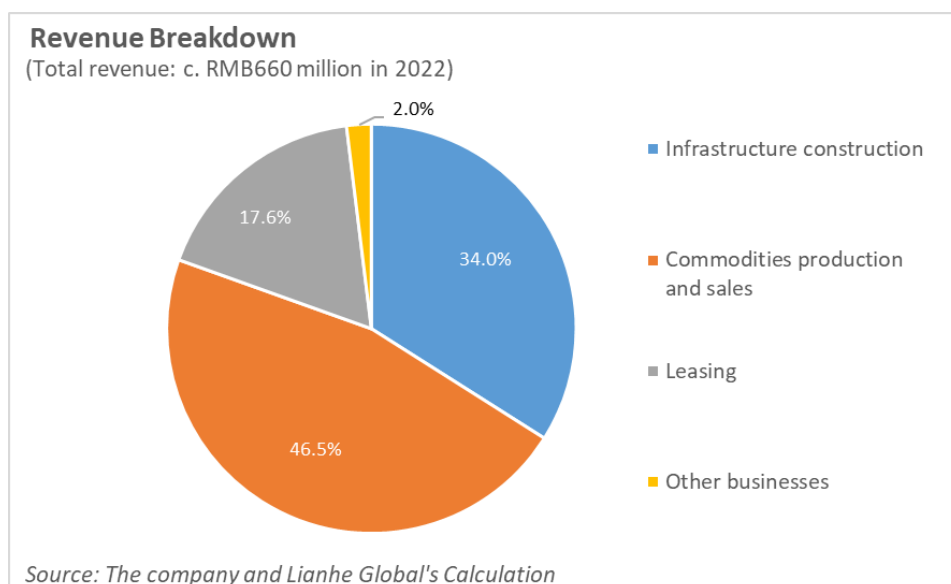
Ongoing Government Support

The Shouguang government provided ongoing support to SGPI. The company has received total subsidies of RMB444.3 million from the Shouguang government during 2020 to 2022. Besides, the company received a series of asset injections with a total value of RMB400.5 million from the Shouguang government in 2021. In addition, the company's paid-in capital was also enlarged to RMB370 million at end-September 2023 from RMB250 million in 2022. We expect SGPI to receive ongoing support from the Shouguang government in the coming years considering its strategic importance in Shouguang.

Business Profile

An important Entity Responsible for Project Construction in Shouguang

SGPI, as an important LIDC in Shouguang, is mainly responsible for the industrial park investment and operation as well as projection construction within the region, with a strong regional franchise advantage. The primary sources of operating revenue for SGPI are projection construction and commodities production and sales, while it also engaged in leasing, heating, etc.



Projection construction

The projection construction business is conducted in both agent construction and self-operated models. Under the agent construction model, the company signs the agent construction agreements with the Shouguang government and settles construction costs plus a percentage of profits annually with the Shouguang government according to the project's progress. Under the self-operated model, the company constructs the projects with internal and external funds, and operates them for rental and other incomes upon completion.

Commodities Production and Sales

As an important source of revenue for the company, commodities production and sales business mainly involves the sales of coal, bromide product, plastic steel, ceramsite, etc.

Leasing

As a supplementary source of revenue for the company, leasing business mainly involves the leasing of vegetable greenhouse, parking space, industrial parks, etc.

Other Businesses

Except for the above businesses, the company also operates other businesses such as heating. They mainly play a supplementary role and have little impact on the company's financial position and creditworthiness.

Financial Profile

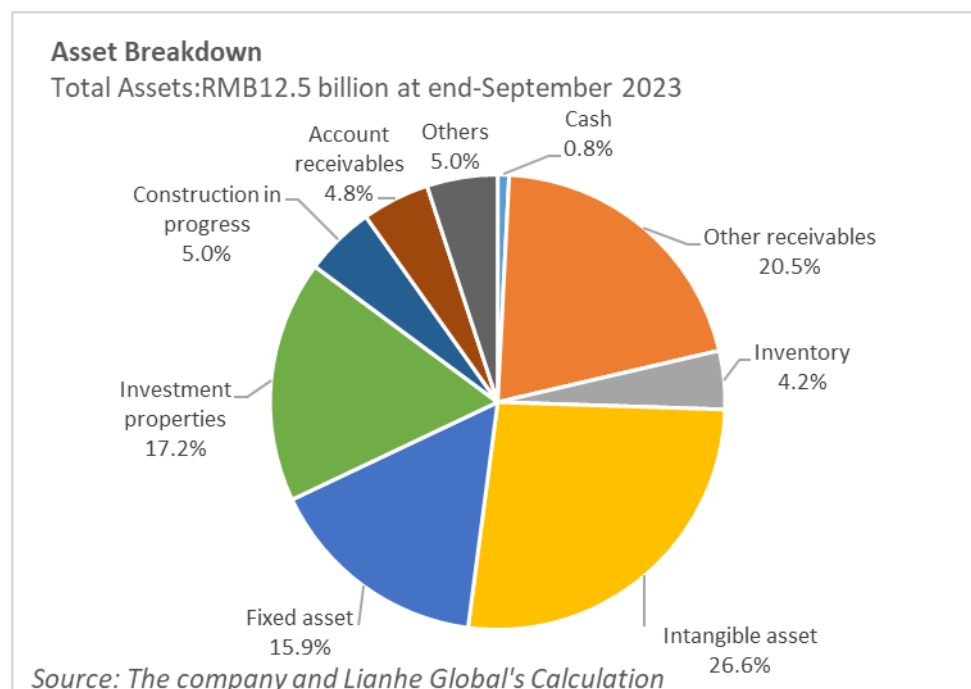
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	September 2023
Total Asset	7,370	10,001	10,878	12,488
Equity	4,856	7,005	7,058	7,206
Debt	1,829	2,316	2,139	3,402

Debt/(Debt+Equity) (%)	27.4	24.8	23.3	32.1
LT Debt	1,002	1,189	1,177	2,184
LT Debt/(LT Debt+Equity) (%)	17.1	14.5	14.3	23.3

Source: Company information and Lianhe Global's calculation

SGPI's total asset grew rapidly to c. RMB12.5 billion at end-September 2023 from c. RMB7.4 billion at end-2020. The company mainly relied on capital injections from the local government and bank borrowings to fund its asset expansion. The company's financial leverage, as measured by debt/capitalization ratio was on an upward trend in the past few years, recording at 32.1% at end-September 2023.



SGPI's asset liquidity was relatively weak, as the company had a large size of intangible asset (mainly use rights of sea area and land as well as franchise rights), investment properties and fixed assets, which added up to c. RMB 7.4 billion at end-September 2023, representing c. 60% of total asset. In addition, the company had a large amount of other receivables (primarily due from local SOEs), which accounted for c. 20.5% of total asset.

Debt Servicing Capability

The liquidity risk of SGPI was manageable. At end-September 2023, the company had cash balance of RMB102 million, compared with its debt due within one year of c. RMB1.2 billion. Nevertheless, the company has access to various financing channels, including bank borrowings and bond issuances to satisfy its obligations. In addition, SGPI also had unused bank facilities of RMB2.3 billion at end-September 2023.



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