

# Zhejiang Anji Construction Holding Group Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	9 January 2024

### Key Figures of Anji County and ZACH

(RMB billion)

Anji County	2021	2022
GDP	56.6	58.2
GDP growth rate (%)	10.8	0.9
Budgetary revenue	6.6	6.2
Government fund	6.8	9.0
Transfer payment	2.7	3.0
Budgetary expenditure	8.9	9.4
ZACH	2022	2022.9
Total Asset	54.3	66.2
Equity	30.9	31.7
Revenue	0.9	0.8

Source: Public information, ZACH and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhejiang Anji Construction Holding Group Co., Ltd.

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Anji County (“the Anji government”) would provide very strong support to Zhejiang Anji Construction Holding Group Co., Ltd. (“ZACH” or the company) if needed. This mainly considers the Anji government’s full ownership of ZACH, ZACH’s strategic position as an important local investment and development company (“LIDC”) responsible for project development in Anji County (“Anji”), and the strong linkage between the Anji government and ZACH, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Anji government may face significant negative impact on its reputation and financing activities should ZACH encounter any operational or financial difficulties.

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

### Key Rating Rationales

**Government’s Ownership and Supervision:** The Anji government holds 100% ownership of ZACH through Financial Bureau of Anji County. The Anji government has strong control and supervision over ZACH including the appointment of senior management and supervision of development strategy, major financing plan and investment decision. 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 Alignment and Importance:** ZACH’s business operation and strategic planning have been aligned with the local government’s policies. ZACH is an important LIDC in Anji. The company is focusing on the development of “Liangshan” Future Science City, which is a key comprehensive new area of Anji comprising business, industry, culture and residence zones. It is a priority task of the local government to improve the infrastructure, living environment and industry attractiveness of Anji, and promote the local economic and social development.

**Ongoing Government Support:** ZACH receives ongoing support in forms of financial subsidies and asset/capital injections from the local government to support its operations. The Anji government injected an array of assets including project funds, hotels, properties, parking lots, tree farms and reservoirs, etc. valued at RMB1.8 billion and RMB10.4 billion in 2020 and 2021, respectively. Between 2020 and end-September 2022, the Anji government also provided operational subsidies amounting to RMB871 million to ZACH. We expect ZACH to receive ongoing support from the local government in the coming years considering its strategic importance in Anji.

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### Applicable Criteria

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

**Economic and Fiscal Conditions of Anji County:** As one of the top 100 countries in China in terms of comprehensive strength, Anji has a relatively strong economic base. Anji's economic development focused on cultural tourism, digital economy, new energy and tea industry in recent years. Anji's GDP reached RMB58.2 billion in 2022, representing a year-over-year growth rate of 0.9%, down from 10.8% in 2021, owing to the impact of Covid.

The Anji government's budgetary revenue increased steadily in 2020 and 2021, with year-over-year growth rates of 11.6% and 10.2% respectively but dropped by 5.1% to RMB6.2 billion in 2022, mainly due to Covid related tax-advantaged policies. The fiscal self-sufficiency capacity of the Anji government was moderate weak. Therefore, it continuously received subsidies from higher governments in the past three years. In contrast, as the major source of fiscal revenue, Anji's government fund income increased by 31.8% to RMB9.0 billion in 2022, owing to the rapidly increase of revenue from state-owned land use rights concession.

The outstanding debt of the Anji government continued to grow. At end-2022, the Anji government's outstanding debt was c. RMB22.3 billion. As the Anji government borrowed heavily in special debts to support public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 122.3% at end-2022 from 111.8% at end-2020.

**ZACH's Financial and Liquidity Position:** ZACH's asset size doubled to RMB66.2 billion at end-September 2023 from RMB30.8 billion at end-2020, as the company actively participated in project development in Anji, especially projects related to "Liangshan" Future Science and Technology City. The company relied on both government support and borrowings to finance its asset expansion. Therefore, its financial leverage, as measured by debt/capitalization, fluctuated between 35%-50% between 2020 and end-September 2023.

ZACH's asset liquidity was moderate weak, as the company project development activities accumulated sizeable inventories (mainly lands and construction costs), investment properties (mainly self-management projects), fixed assets and construction in progress, representing 79.1% of total asset at end-September 2023. These project related assets usually take a long time to monetize due to the protracted construction and payback period.

ZACH's short-term debt servicing pressure is manageable. At end-September 2023, the company had cash of RMB5.0 billion (including restricted cash of RMB0.5 billion), compared with debt due within one year of RMB6.9 billion. At the same time, the company has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. In addition, ZACH had unused bank lines of RMB15.0 billion at end-September 2023.

**High Contingent Liability:** ZACH's contingent liability is high. The company provided financial guarantees of RMB12.7 billion at end-September 2023, accounting for 40.1% of its net assets. Considering the guaranteed parties were mainly other LIDC in Anji, the company's credit status is highly correlated with the overall credit environment of Anji.

## Rating Sensitivities

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

We would consider upgrading ZACH's rating if there is an upgrade in our internal credit assessment on the Anji government.

## Operating Environment

### Economy and Fiscal Condition of Anji

Anji is a county under the jurisdiction of Huzhou City and located in the northwest of Zhejiang Province. Anji has a total land area of 1,886 square kilometers. At end-2022, Anji had a resident population of c. 0.6 million, with an urbanization rate of 61.1%.

As one of the top 100 countries in China in terms of comprehensive strength, Anji has a relatively strong economic base. Anji's economic development focused on cultural tourism, digital economy, new energy and tea industry in recent years. Anji's GDP reached RMB58.2 billion in 2022, representing a year-over-year growth rate of 0.9%, down from 10.8% in 2021 and 4.3% in 2020, owing to the impact of Covid's disruption. Its fixed asset investment growth rate also fluctuated in the past three years, which was 6.9%, 21.4% and 7.6% in 2020, 2021 and 2022, respectively.

#### Anji County's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	48.7	56.6	58.2
-Primary industry (%)	5.8	4.9	5.2
-Secondary industry (%)	44.4	48.4	46.8
-Tertiary industry (%)	49.8	46.7	48.0
GDP growth rate (%)	4.3	10.8	0.9
Fixed asset investment	18.8	22.8	24.5
Fixed asset investment growth rate (%)	6.9	21.4	7.6
Residential population (million)	0.6	0.6	0.6

Source: public information and Lianhe Global's calculation

The Anji government's budgetary revenue increased steadily in 2020 and 2021, with year-over-year growth rates of 11.6% and 10.2% respectively but dropped by 5.1% to RMB6.2 billion in 2022, mainly due to Covid related tax-advantaged policies. The fiscal self-sufficiency capacity of the Anji government was moderate weak, with budget deficit of 44.3%, 34.7% and 51.6% in 2020, 2021 and 2022, respectively. Therefore, it continuously received subsidies from higher governments in the past three years. In contrast, as the major source of fiscal revenue, Anji's government fund income increased by 31.8% to RMB9.0 billion in 2022, owing to the rapidly increase of revenue from state-owned land use rights.

The outstanding debt of the Anji government continued to grow. At end-2022, the Anji government's outstanding debt was c. RMB22.3 billion. AS the Anji government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 122.3% at end-2022 from 111.8% at end-2020.

#### Anji government's Fiscal Conditions

(RMB billion)	2020	2021	2022
Budgetary revenue	6.0	6.6	6.2
Budgetary revenue growth rate (%)	11.6	10.2	-5.1
-Tax revenue	5.4	6.1	5.7
-Tax revenue (% of budgetary revenue)	89.7	92.1	91.3
Government fund income	7.5	6.8	9.0

Transfer payment	2.8	2.7	3.0
<b>Aggregate revenue</b>	<b>16.3</b>	<b>16.1</b>	<b>18.2</b>
Budgetary expenditure	8.6	8.9	9.4
Budget balance <sup>1</sup> (%)	-44.3	-34.7	-51.6

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

Source: Finance Bureau of Anji County and Lianhe Global's calculations

## Ownership Structure and Profile

### Full Government Ownership

ZACH was established in October 2018 and funded by the Zhejiang Anji Liangshan Zhenxing Tourism Investment Development Co., Ltd. ("ZTID"). In April 2021, ZACH's 100% equity interest was transferred from the ZTID to the Anji Finance Bureau.

At end-June 2023, the Anji Finance Bureau, as the sole shareholders and actual controller, held 100% of the company's equity, with the registered and paid-in capital recording at RMB3.0 billion and RMB1.6 billion, respectively.

## Strategic Importance and Government Linkage

### The Strategic Importance and Alignment of ZACH to the Anji government

ZACH's business operation and strategic planning have been aligned with the local government's policies. ZACH is an important LIDC in Anji. The company is focusing on the development of "Liangshan" Future Science and Technology City, which is a key comprehensive new area of Anji comprising business, industry, culture and residence zones. It is a priority task of the local government to improve the infrastructure, living environment and industry attractiveness of Anji, and promote the local economic and social development.

### Strong Linkage with the Anji government

ZACH's linkage with the local government is strong as Anji Finance Bureau directly owns 100% shares of ZACH and is the company's ultimate controller. The Anji government has strong control and supervision over ZACH including the appointment of senior management and supervision of development strategy, major financing plan and investment decision. 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.

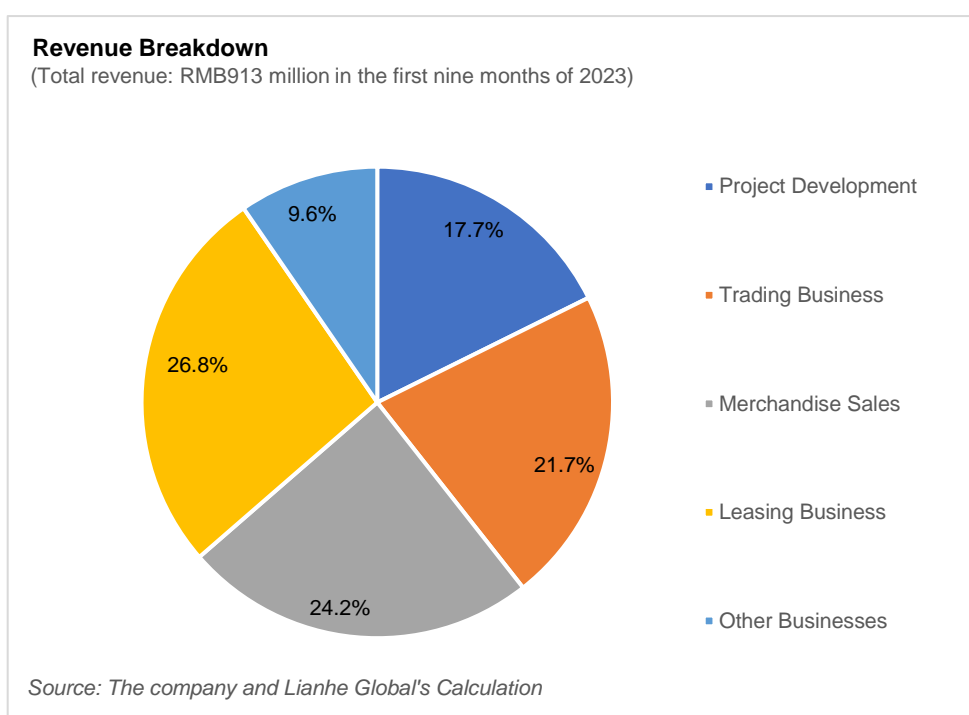
### Ongoing Government Support

ZACH receives ongoing support in forms of financial subsidies and asset/capital injections from the local government to support its operations. The Anji government injected an array of assets including project funds, hotels, properties, parking lots, tree farms and reservoirs, etc. valued at RMB1.8 billion and RMB10.4 billion in 2020 and 2021, respectively. Between 2020 and end-September 2022, the Anji government also provided operational subsidies amounting to RMB871 million to ZACH. We expect ZACH to receive ongoing support from the local government in the coming years considering its strategic importance in Anji.

## Business Profile

### An Important LIDC Responsible for Project Development in Anji

ZACH, as an important LIDC in Anji, is mainly responsible for project development within the region. The company also engaged in trading, properties leasing and management, as well as parking lots operations businesses. The company's total revenue reached RMB494 million, 539 million, 877million and 913 million in 2020, 2021, 2022 and the first nine months of 2023, respectively, representing an upward trend. Yet its gross profit margin decreased to 11.3% in the first nine months of 2023 from 20.3% in 2020.



### Project Development

ZACH is designated by the local government to undertake the infrastructure and land consolidation projects in Anji. The projects are generally conducted in the agent construction model, where the company signs the agent construction agreements with the entrusting party and is responsible for fundraising and construction of entrusted projects. The company mainly settles construction costs plus 12%-15% management fees annually with the entrusting party according to the project's progress. At end-2022, the company's projects under construction required investment amounting to RMB1,577 million, which could support the segment's development in the next two to three years.

ZACH is also developing self-management projects, including exhibition center, industry parks and commercial complex, in "Liangshan" Future Science and Technology City. The company intends to realize operational and rental incomes upon the completion of these projects. However, given the high total planned investment of projects in "Liangshan" Future Science and Technology City (approximately RMB11.4 billion), ZACH will face significant capital expenditure pressure in the coming years.

## Trading

ZACH has been participated in trading business since 2022. The company mainly trades rebar, wire rod and coil, etc. The trading business recorded revenue of RMB211 million and RMB173 million in 2022 and the first nine months of 2023, respectively, emerging as ZACH's important source of revenue and making the company's revenue more diversified. However, the company's trading business has a high concentration of buyers, mainly consisting of small and medium-sized private enterprises, indicating a relatively high counterparty risk. In addition, the gross margin of the trading business was low.

## Leasing, Merchandise Sales and Others

ZACH generated considerable rental income by leasing school campuses, hotels, reservoirs, shops and farmer's market owned by the company. The company also involves in sales of earth and stone, bentonite and saplings. Other businesses of ZACH include parking lots operation and integrated watershed management, etc., with each segment accounted for a relatively small proportion of the company's total revenue.

## 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>Sept. 2023</b>
Total Asset	30,794	44,188	54,290	66,156
Equity	17,005	28,094	30,852	31,664
Debt	13,171	14,883	21,477	32,320
Debt/(Debt+Equity) (%)	43.6	34.6	41.0	50.5
LT Debt	7,828	9,613	16,681	25,461
LT Debt/ (LT Debt+Equity) (%)	31.5	25.5	35.1	44.6

*Source: The company and Lianhe Global's calculation*

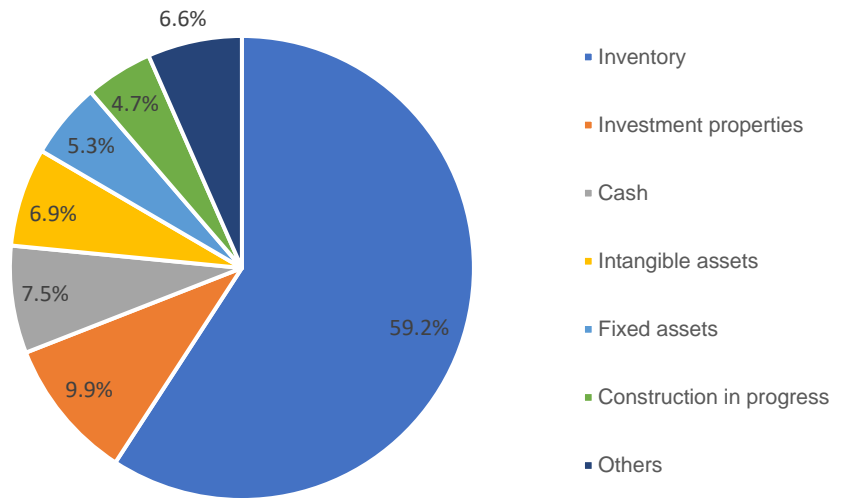
ZACH's asset size doubled to RMB66.2 billion at end-September 2023 from RMB30.8 billion at end-2020, as the company actively participated in project development in Anji, especially projects related to Liangshan" Future Science and Technology City. The company relied on both government support and borrowings to finance its asset expansion. Its financial leverage, as measured by as measured by debt/capitalization dropped to 34.6% at end-2021 from 43.6% at end-2020, as the result of large-scale capital injections in 2021. It then increased to 50.5% at end-September 2023, owing to the heavy borrowings in 2022 and the first nine-months of 2023. At end-2023, the company had total debt amounting to RMB32.3 billion, up from RMB14.9 billion at end-2021.

ZACH's asset liquidity was moderate weak, as the company project development activities accumulated sizeable inventories (mainly lands and construction costs), investment properties (mainly self-management projects), fixed assets and construction in progress, representing 79.1% of total asset at end-September 2023. These assets usually take a long time to monetize due to the protracted construction and payback period.



### Asset Breakdown

(Total assets: RMB66.2 billion at end-September 2023)



Source: The company and Lianhe Global's calculation

### Debt Servicing Capability

ZACH's short-term debt servicing pressure is manageable. At end-September 2023, the company had cash of RMB5.0 billion (including restricted cash of RMB0.5 billion), compared with debt due within one year of RMB6.9 billion. At the same time, the company has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. In addition, ZACH had unused bank lines of RMB15.0 billion at end-September 2023.



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