

Foshan Nanhai Lianda Investment (Holding) Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	8 January 2024

Key Figures of Nanhai District and FNLI

(RMB billion)	2021	2022
Nanhai District		
GDP	356.1	373.1
GDP growth rate (%)	8.8	2.2
Budgetary revenue	26.7	25.8
Government fund	43.1	18.4
Transfer payment	6.5	6.4
Budgetary expenditure	28.9	26.9
FNLI		
Asset	2022	2023.9
Equity	18.3	20.7
Revenue	8.6	8.8
	0.7	1.6

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

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer Credit Rating of Foshan Nanhai Lianda Investment (Holding) Co., Ltd. (“FNLI”); Issuer Rating Outlook is Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the Nanhai District People’s government of Foshan (“the Nanhai District government”) would provide very strong support to FNLI if needed, in light of its 90.14% ownership of FNLI, FNLI’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for urban development and state-owned assets operation in Nanhai District, and the strong linkage between the Nanhai District government and FNLI, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Nanhai District government may face significant negative impact on its reputation and financing activities should FNLI encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Nanhai District government is FNLI’s ultimate controller, holding 90.14% equity in FNLI (with the other 9.86% owned by Guangdong Provincial Department of Finance to subsidize the provincial Social Security Fund) and supervising the company’s senior management appointment, major operation, investment and financing plans through Foshan Nanhai Stated-owned Assets Supervision and Administration Bureau (“Nanhai SASAB”). In addition, Nanhai SASAB has set up an annual assessment mechanism for FNLI and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance and Strategic Alignment: FNLI is responsible for the development of Lishui industrial park renewal project (“Lishui project”), the most important large-scale urban renewal projects in Nanhai District with total planned development costs of RMB30.4 billion, aiming to transfer the Lishui industrial park to a new urban area. It plays an important role in supporting Nanhai District’s economic and social development by improving the region’s environment and living conditions and upgrading its industries. The company’s strategic importance has been strengthening with the progress of Lishui Project. By end-March 2023, FNLI had invested RMB6.8 billion in Lishui project.

In addition, the Nanhai District government funded FNLI to develop Nanhai Cultural Center and Nanhai Sports Center and operate them upon commencement. Both are key culture and sports projects in Nanhai District. The company also designated by the Nanhai District government to develop other cultural tourism projects. These projects enhanced FNLI’s functions in city development and operations.

Ongoing Government Support: The Nanhai District government provided project funds amounting to RMB1,584 million to FNLI to support the company’s project development. The company also received an array of financial subsidiaries, asset injections from the local

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Applicable Criteria

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

government. We expect the company to receive ongoing government support in the future given its strategic importance in Nanhai District.

Economy and Fiscal Conditions of Nanhai District: Nanhai District is a municipal district of Foshan City with a well-developed economy. It was ranked second among China's Top 100 Districts. Nanhai District realized a GDP of RMB373.1 billion in 2022, representing a year-over-year growth rate of 2.2%, down from 8.8% in 2021, owing to Covid's disruption. Its fixed asset investment fell by 1.0% in 2022, mainly due to the slump in property investment.

The Nanhai District government's budgetary revenue decreased to RMB25.8 billion in 2022 from RMB26.7 billion in 2021, due to the large-scale value-added tax refund policy to support the economy. The aggregate revenue of the Nanhai District government heavily relied on the government fund income, which is mainly generated by land-use right transfers. Owing to the weak property market, Nanhai District's government fund income decreased substantially to RMB18.4 billion in 2022, compared with RMB43.1 billion in 2021.

The fiscal self-sufficiency of the Nanhai District government was improving. Its budget deficit narrowed to 4.0% in 2022 from 8.6% in 2021. However, its government debt increased significantly to RMB61.8 billion at end-2022 from RMB50.3 billion at end-2021, mainly due to the increase in special debt to support a series of major projects.

FNLI's Financial and Liquidity Position: FNLI's asset size grew significantly to RMB20.7 billion at end-September 2023 from RMB10.3 billion at end-2020. The asset expansion was mainly due to the FNLI's intensive investment in the Lishui project. FNLI mainly relies on borrowings to fund the Lishui project. The total debts of the company increased sharply to 8.8 billion from RMB6.4 billion over the same period. As a result, FNLI's financial leverage level, as measured by total debts/capitalization, increased to 49.5% at end-September 2023 from 15.5% at end-2020. We expect FNLI's financial leverage to increase constantly in the next two to three years, given the high financing needs of the Lishui project.

FNLI's asset liquidity was moderately weak. Inventories accounted for 41.8% of the company's total assets at end-September 2023, which mostly comprised the development costs of the Lishui project. With the progress of the Lishui project, we expect FNLI's inventory size to expand in the next two to three years. However, considering the long development period and large investment scale of the project, these assets could take a long time to convert to cash.

FNLI's short-term debt serving pressure was moderately high. At end-September 2023, FNLI had cash of RMB698 million, compared with its debts due within one year of RMB1.1 billion. Nevertheless, the company has access to various financing channels, including bank borrowings and bond issuances to support its operation and debt repayment. At end-September 2023, FNLI had unused bank facilities and available offshore bond issuance quota amounting to RMB5.3 billion and USD350 million, respectively.

Rating Sensitivities

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

We would consider upgrading FNLI's rating if is an upgrade in our internal credit assessment on the Nanhai District government.



Company Profile

FNLI was established in 2004 by Nanhai SASAB, with initial registered capital of RMB10 million, which was enlarged to RMB190 million at end-September 2023 after four rounds of capital injections. FNLI is an important LIDC that is responsible for public facility construction, urban renewal and state-owned properties' leasing and management. FNLI has gradually diversified into electronic component manufacturing, energy and trading businesses.

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