

# Hubei Guanggudong State-Owned Capital Investment and Operation Group Ltd.

## Surveillance Report

### Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	2 January 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB’ global scale Long-term Issuer Credit Rating of Hubei Guanggudong State-Owned Capital Investment and Operation Group Ltd. (“GGDSI”) (Also known as “Hubei Optics Valley East State-owned Capital Investment and Operation Group Co., Ltd.”); Issuer Rating Outlook is Stable.

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Daye City (“the Daye government”) would provide strong support to GGDSI if needed, in light of its full ownership of GGDSI, GGDSI’s strategic importance as the largest local investment and development company (“LIDC”) in terms of asset size in Daye, and the strong linkage between the Daye government and GGDSI, including appointment of the senior management, supervision of major investment and financing plans, strategic alignment, and ongoing operational and financial support. In addition, the Daye government may face significant negative impact on its reputation and financing activities should GGDSI encounters any operational and financial difficulties.

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

### Key Figures of Daye and GGDSI

(RMB billion)	2021	2022
<b>Daye</b>		
GDP	75.1	86.1
GDP growth rate (%)	7.3	6.8
Budgetary revenue	4.1	4.1
Government fund	5.6	8.8
Transfer payment	2.7	3.4
Budgetary expenditure	7.9	8.1
<b>GGDSI</b>		
Asset	62.1	70.0
Equity	31.7	31.9
Revenue	3.3	3.9

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

### Rating Rationale

**Government’s Ownership and Supervision:** The Daye government, the ultimate controller of GGDSI, holds 100% equity of GGDSI through the State-owned Assets Supervision and Administration Bureau of Daye (“Daye SASAB”). The Daye government supervises the company via Daye SASAB, including appointment of senior management, supervision of decision-making on major investment and financing plans and strategic alignment. In addition, the local government has set up an annual assessment mechanism for GGDSI and regularly appoints auditors to review its operating performance and financial position.

**Strategic Importance and Strategic Alignment:** GGDSI is Daye’s the largest LIDC in terms of asset size. The company takes part in infrastructure development within the region and operates the city’s utilities, such as water supply, sewage treatment and city transportation operations (buses and taxis). The company also develops state-owned assets (mainly mineral resources) in Daye. GGDSI’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Yet majority of infrastructure development and utility operation activities was carried by Hubei New Tongdu Urban Investment and Development Group Co., Ltd. (“HNTU”; ‘BBB/Stable’), a major subsidiary of GGDSI, which keeps a high degree of independence, especially in operation and financial management. This might affect GGDSI’s strategic importance at the parent company level.

**Ongoing Government Support:** The Daye government injected an array of assets, including properties, mineral resources, reservoirs and tidal flat breeding rights, valued at RMB5,018 million

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### Applicable Criteria

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

in 2022. GGDSI also received two rounds of capital injections, totaling RMB228 million between 2022 and end-September 2023. Over the same period, the local government provided financial subsidies amounting to RMB962 million to support GGDSI's operation in relation to providing public services and goods. We believe GGDSI is likely going to receive government support given its strategic importance in Daye.

**Economy and Fiscal Conditions of Daye:** Daye is a county-level city of Hubei Province and managed by Huangshi City. Daye is one of the top 100 industrial counties in China and ranked 81<sup>st</sup> in the list of Top 100 Counties in China in 2023, indicating a strong industrial and economic base. Its GDP amount reached RMB86,079 million in 2022 and was ranked first out of six counties and districts of Huangshi. Yet Daye's GDP growth rate fluctuated in the past years, which recorded at -4.2%, 14.4% and 6.5% in 2020, 2021 and 2022, respectively, owing to Covid's disruption.

The budgetary revenue of the Daye government growth rate grew steadily in 2022, reaching RMB4,082 million and representing a year-on-year growth rate of 9.1% (excluding the influence of value-added tax credit refund). However, the fiscal self-sufficiency of Daye was weak, and it recorded a budget deficit of 97.6% in 2022. In addition, the outstanding debt of the Daye government kept growing in the past three years and reached RMB10,901 million at end-2022, mainly due to the new issuance of special debts to support Daye's project development.

**GGDSI's Financial and Liquidity Position:** GGDSI's total asset expanded to RMB70,042 million at end-September 2023 from RMB62,072 million at end-2022, representing a growth rate of 12.8%. The increase in the company's total asset was mainly driven by the rise in inventories and other receivables. The former mainly comprised lands to be developed and construction costs, which usually have a long payback period, given protracted construction and cash collection period. The latter were mainly due from government agencies and SOEs in Daye with a long payment schedule (usually three to five years). Overall, GGDSI's asset liquidity remained low.

GGDSI's asset expansion was mainly funded by borrowings. Its total debt increased by 15.5% to RMB26,878 million at end-September 2023 from RMB23,261 million at end-2022. As a result, its financial leverage, as measured by debt/capitalization increased to 45.7% from 42.3% over the same period. In addition, borrowings from non-traditional sources such as trust loans, contributed to 36.5% to GGDSI's total debt. This could put a high refinance pressure on the company, given strengthening regulations over non-traditional financings.

GGDSI's short-term debt servicing pressure was very high. At-end September 2023, the company had a total cash balance of RMB2,986 million, of which RMB2,733 million was restricted, compared with its debt to be due within one year amounting to RMB10,070 million. Yet, GGDSI has unused bank facilities of RMB23,851 million and available offshore bond issuance quota of RMB2,000 million at end-September 2023, which could support the company's debts repayment and operation to some extent. We also expect the company to roll over most of its short-term bank borrowings (end-September 2023: RMB1,163 million). Nevertheless, obtaining prompt government support and additional financing channels are still crucial for GGDSI to maintain its liquidity.

## Rating Sensitivities

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

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



### Company Profile

GGDSI, formerly known as Daye State-Owned Assets Management Co., Ltd., was established in 2003 with the approval by the People's Government of Hubei Province and the Daye government. The company was the major state-owned assets operating entity in Daye. Its operation scope included infrastructure development, utility operation, state-owned property leasing, mine development and industry investment, etc.

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